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IN THE MATTER OF THE APPLICATION OF **GOODMAN WATER COMPANY** FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES FOR UTILITY SERVICES BASED THEREON	No. W-02500A- 06-0281 **FILING OF APPLICANT'S REJOINDER TESTIMONY, INCORPORATING ITS RESPONSE TO STAFF'S SUREBUTTAL TESTIMONY**

REJOINDER TESTIMONY OF

THOMAS J. BOURASSA

I. INTRODUCTION AND QUALIFICATIONS.

Q. PLEASE STATE YOUR NAME AND ADDRESS.

A. My name is Thomas J. Bourassa. My business address is 139 W. Wood Drive, Phoenix, Arizona 85029.

Q. HAVE YOU PREVIOUSLY SUBMITTED DIRECT AND REBUTTAL TESTIMONY IN THE INSTANT CASE?

A. Yes, my direct and rebuttal testimony was submitted in support of the initial application in this docket by Goodman Water Company ("Goodman" or "Company").

Q. WHAT IS THE PURPOSE OF THIS REJOINDER TESTIMONY?

A. I will provide rejoinder testimony in response to the surrebuttal filings by Arizona Corporation Commission Utilities Division Staff ("Staff") with respect to rate base, revenues and expenses, cost of capital and rate design.

Q. WHAT IS THE REVENUE INCREASE THAT THE COMPANY IS PROPOSING IN THIS REJOINDER TESTIMONY?

A. The Company's proposed total revenue requirement has not changed since its rebuttal filing. The Company proposes a total revenue requirement of $538,812, which constitutes an increase in revenues of $325,463, or 152.55% over test year revenues.

Q. PLEASE SUMMARIZE THE PROPOSED REVENUE REQUIREMENTS AND RATE INCREASES FOR THE COMPANY AND STAFF AT THIS STAGE OF THE PROCEEDING?

A. The proposed revenue requirements and proposed rate increases are as follows:

	Revenue Requirement	Revenue Incr.	% Increase
Company-Direct	$537,955	$324,607	152.15%
Staff Direct	$446,411	$233,063	109.24%
Company Rebuttal	$538,812	$325,463	152.55%
Staff Surrebuttal	$463,194	$249,846	117.11%
Company Rejoinder	$538,812	$325,463	152.55%

Q. WHY IS STAFF'S REVENUE REQUIREMENT AND RECOMMENDED INCREASE HIGHER IN ITS SURREBUTTAL FILING?

A. There are two primary reasons for an increase in Staff's recommended revenue requirement. First, Staff has agreed that its interest synchronization in its computation of income taxes was an error. *See* Surrebuttal Testimony of Charles

R. Myhlhousen ("Myhlhousen SB") at 5. The correction of this error has resulted in an increase in Staff's proposed income taxes. Second, Staff has adopted the Company's proposed level of expense for repairs and maintenance which is higher than the Staff proposed level in its direct filing. Although Staff did not present any written testimony regarding its change in position regarding repairs and maintenance, Staff's surrebuttal schedules now reflect the same level of repairs and maintenance expense as proposed by the Company. *See* Staff Surrebuttal Schedule CRM-8.

II. RATE BASE.

Q. WOULD YOU PLEASE IDENTIFY THE PARTIES' RESPECTIVE RATE BASE RECOMMENDATIONS?

A. The rate bases proposed by all parties in the case are as follows:

	OCRB	FVRB
Company-Direct	$ 1,275,683	$ 1,275,683
Staff Direct	$ 1,270,589	$ 1,270,589
Company Rebuttal	$ 1,292,051	$ 1,292,051
Staff Surrebuttal	$ 1,270,741	$ 1,270,741
Company Rejoinder	$ 1,292,051	$ 1,292,051

A. Plant-in-Service.

Q. DO STAFF AND THE COMPANY AGREE AS TO THE AMOUNT OF PLANT-IN-SERVICE INCLUDED IN RATE BASE?

A. Yes. Both Staff and the Company agree to plant-in-service in the amount of $2,365,811.

B. Accumulated Depreciation.

Q. DO STAFF AND THE COMPANY AGREE AS TO THE AMOUNT OF ACCUMULATED DEPRECIATION?

A. Yes. Both Staff and the Company now agree to accumulated depreciation in amount of $108,511. Staff has accepted the Company's rebuttal proposed level of accumulated depreciation and has made the appropriate adjustment. *See* Myhlhousen SB at 4.

C. Working Capital.

Q. HAVE YOU MADE A REJOINDER ADJUSTMENT CONCERNING WORKING CAPITAL?

A. No. The Company continues to propose a cash working capital allowance in the instant case. Since the Company has not proposed any further changes to operating expenses, there is no change to the Company's proposed cash working capital allowance. The cash working capital allowance proposed by the Company is $21,310. Staff continues to propose zero working capital.

Q. PLEASE RESPOND TO THE SURREBUTAL TESTIMONY OF MR. MYHLHOUSEN ON PAGE 4 OF HIS TESTIMONY REGARDING WORKING CAPITAL?

A. Mr. Myhlhousen claims that Staff is not aware of any Class C utility given working capital without a lead-lag study. *See* Myhlhousen SB at 4. Mr. Myhlhousen's assertion that the Commission has not authorized working capital for Class C utilities is incorrect. There have been cases in the past few years where a Class C utility was granted a cash working capital allowance based on the formula method. *E.g.* Pine Water Company (A.C.C. Decision 67166, August 10, 2004) and Rio Rico Utilities, Inc. (A.C.C. Decision 67279, October 5, 2004). In both of these cases, Staff recommended cash working capital allowances based on the formula method. *See* Direct Testimony of Dennis Rogers, page 13, Docket No. SW-02676A-03-434, and Direct Testimony of Claudio Fernandez, page 10, Docket No. W-03512A-03-0279.

I have previously testified why the formula method is an appropriate method and why a cash working capital allowance should be allowed in the instant case and I will not repeat that testimony here. *See* Rebuttal Testimony of Thomas J. Bourassa ("Bourassa RB") at 6-7. Based on my involvement in numerous rate proceedings in the past couple of years it appears that Staff has adopted a black letter 'policy' of opposing any cash working capital allowance unless accompanied by a lead-lag study. This 'black letter policy, which applies to all Class C and above utilities, is interesting given that Staff asserts that each company should be examined on a case-by-case basis. *See* Myhlhousen SB at 7. An inflexible policy such as this one seems to me to be both contradictory to Staff's approach to rate making and arbitrary. The Commission rules do contemplate the use of the formula method. *See* Arizona Administrative Code 14-2-103. Schedule B-5, for example, explicitly provides for the formula method for computing working capital. Further, it is required to be filed by all utilities regardless of size.

III. INCOME STATEMENT.

Q. PLEASE RESPOND TO MR. MYHLHOUSEN'S COMMENTS ON PAGE 5 AND 6 OF HIS SURREBUTTAL TESTIMONY REGARDING THE APPROPRIATE LEVEL OF SALARIES AND WAGES AND OUTSIDE SERVICE COSTS FOR MR. SEARS AND MR. SHINER?

A. While both Mr. Sears and Mr. Shiner are owners of the Company, together they fulfill the duties and responsibilities of managing the Company. Mr. Sears receives compensation for his services through a salary. Mr. Shiner receives compensation for his services through consulting fees. Mr. Myhlhousen asserts the Company cannot justify the costs for these two individuals and then proposes a level of expense Mr. Myhlhousen has determined to be reasonable. *See* Myhlhousen SB at 5 and 6. However, Mr. Myhlhousen has yet to provide any support by way of evidence, analysis, or computations for how he determined what is a reasonable of

expense. *See* Bourassa RB at 9. I can only assume that the levels of salaries and wages and outside services expense for Mr. Sears and Mr. Shiner proposed by Mr. Myhlhousen is his own best guess of what a reasonable level of expense is. This should not be the basis upon which an adjustment should be made and Staff's adjustment should be rejected on this alone.

Q. DOES THE FACT THAT NEITHER MR. SEARS NOR MR. SHINER KEEP TIMESHEETS BOTHER YOU?

A. No. Mr. Myhlhousen would agree that some time must be spent managing Goodman. Both Mr. Sears and Mr. Shiner are involved to some extent in the day-to-day operations. Even Mr. Myhlhousen admits this. *See* Bourassa RB at 9. Additionally, the function of management encompasses more than the day-to-day operations. *Id.* Let's assume, for arguments sake, that these two individuals together spend together on average 10-12 hours per week performing their respective responsibilities. That's on average 5 to 6 hours each per week. At an average 10-12 hours per week, the time spent represents 25 to 30 percent of a full-time employee based on a 40 hour work week. The Company proposed level of salaries and wages and outside service expense for both Mr. Sears and Mr. Shiner total less than $50,000 annually ($32,000 for Mr. Sears plus $17,325 for Mr. Shiner). Based on the American Water Works Association ("AWWA") compensation survey, a top executive working for a private utility earns an average of $176,982. *See* Top Executive – All Participants AWWA Water Utility Compensation Survey -2006, attached hereto as Rejoinder Exhibit No. 1. $50,000 is less than 30 percent of the salary of a top executive.

Putting aside the amount of time spent by these two individuals, their services to the Company are available through out any given week and at the same cost regardless of whether they spend 5, 10, 20, or 40 hours on utility business in a week. In my experience, it would be highly unlikely the Company could find a top executive will to work part-time, never-mind one-third time. And, if the Company

were fortunate to find such a person, they would only be available when they were scheduled to work. These two individuals are available as the need arises regardless of when that need may arise.

Q. HOW DO YOU RESPOND TO MR. MYHLHOUSEN'S SURREBUUTAL TESTIMONY ON THE COSTS FOR THE SERVICES PROVIDED BY CWH2?

A. Mr. Myhlhousen states that there "appears" to be a duplication of services. *See* Myhlhousen SB at 6. This is Mr. Myhlhousen's opinion and is unsupported by the evidence. Mr. Hill has a contract which outlines the services he provides and which I have previously testified to. *See* CWH2 Services Contract, attached hereto as Rejoinder Exhibit No. 2. *See* also Bourassa RB at 10-11.

Mr. Myhlhousen also takes issue with the basis of the billing (based on number of connections). *See* Myhlhousen SB at 6. This is not sufficient to disallow the costs. YL Technology's monthly charges to Goodman are also based on the number of connections, yet Mr. Myhlhousen does not take issue with the costs from YL Technology.

Q. IS MR. HILL'S COSTS SOLELY BASED ON THE NUMBER OF CONNECTIONS?

A. No. The contract explicitly states that the cost is also based on a maximum of 5 hours per month which can be carried over up to 12 months if unused. Any time spent above the 5 hours per month is billed at a rate of $75.00 per hour. In my experience, the billing rate is not out of line for the consulting services Mr. Hill provides.

Q. CAN YOU RESPOND TO MR. MYHLHOUSEN'S ASSERTION THAT THE INVOICES FROM MR. HILL ONLY STATE "TAKE READINGS AND CHECK SITES"?

A. It is not clear to me why he believes these are the only services provided to the Company. Mr. Hill does provide some operation and maintenance services in

addition to consulting services per the contract. The "other" service costs are recorded in the materials and supplies account. During the test year approximately $1,518 was recorded in the materials and supplies account for "other" services provided by Mr. Hill. Under the CWH2 contract, approximately $9,674 was recorded in the outside services management account. The amounts associated with taking readings and checking sites to which Mr. Myhlhousen refers only amounts to $1,518. Mr. Myhlhousen proposes to remove $11,916. *See* Staff Surrebuttal Schedule CRM-12.

Q. MR. BOURASSA, THE $9,674 and the $1,518 TOTAL $11,192, NOT $11,916 AS MR. MYHLHOUSEN PROPOSES TO REMOVE. CAN YOU EXPLAIN?

A. My only explanation is that Mr. Myhlhousen incorrectly computed the total of the costs associated with CWH2 Services. Putting this aside, if the Commission was to determine that Mr. Hill's services for the taking of readings and checking sites is a duplication of the services performed by YL Technology, the most the Commission should disallow is $1,518.

Q. HOW DO YOU RESPOND TO MR. MYHLHOUSEN'S ASSERTION ON PAGE 7 OF HIS SURREBUTTAL TESTIMONYTHAT EVEN YOU ADMIT THAT COMPANIES SHOULD BE EXAMINED ON A CASE-BY-CASE BASIS?

A. Mr. Myhlhousen fails to see the point. That is, he did not provide any evidence, support, or computations to support his recommendations. He conveniently dismisses Staff's own analysis from the Sabrosa Water Company case on what reasonable costs. *See* Myhlhousen SB at 7. He also dismisses the comparisons with Valley Utilities and Chaparral City Water Company. *Id.* at 7. Yet, he has yet to offer any support for his position. In my opinion, the Company has met its burden, while Staff has not.

IV. COST OF CAPITAL.

A. Overview and Summary.

Q. PLEASE SUMMARIZE THE COMPANY'S REJOINDER POSITION REGARDING COST OF CAPITAL?

A. The Company continues to recommend 10.5% as its cost of capital and rate of return on original cost rate base, which Goodman accepts as the fair value of its utility property for purposes of this rate case. The 10.5% rate of return is based on a capital structure consisting of 100% common equity.

A return on equity of 10.5% is extremely conservative when the small size and the operational and business risks related to Goodman's water operations are considered.

Q. HAVE YOU UPDATED YOUR COST OF CAPITAL SCHEDULES?

A. Yes. I have updated my cost of capital analysis using more recent data. My updated schedules are attached to this testimony as rebuttal D schedules and the table below summarizes the results.

DCF Analysis	Range	Midpoint
Constant Growth (earnings growth)	9.9% - 12.8%	11.4%
Constant Growth (sustainable growth)	8.7% - 10.8%	9.8%
Two-Stage Growth Model	9.6% - 11.7%	10.7%
Risk Premium Analysis		
Actual Returns	10.1% - 10.2%	10.2%
Authorized Returns	10.8% - 11.3%	11.1%
Comparable Earnings		
Actual Returns	4.0% - 11.7%	7.9%
Authorized Returns	9.9% - 12.7%	11.3%
Value Line Industry Composite (2006)		9.5%
Value Line Industry Composite (2007)		10.5%
Value Line Industry Composite (2009)		11.5%

Based on these results, I continue to believe that 10.5% is a reasonable rate of return for Goodman, especially in light of the additional risk associated with an equity investment in Goodman.

Q. HOW DOES THE RETURN OF 10.5% YOU ARE RECOMMENDING COMPARE TO STAFF SURREBUTAL RECOMMENDATION?

A. The rates of return on equity ("ROE") recommended by Staff is 9.30%. This is 30 basis points lower than Staff's recommendation in its direct filing. I continue to believe the rates of return recommended by Staff is simply too low given the Company's extremely small size, limited revenue and cash flow, small customer base, lack of diversification, lack of liquidity, and other characteristics.

B. <u>Response to Staff's Testimony on Unique Risks</u>.

Q. PLEASE RESPOND TO THE TESTIMONY MR. IRVINE AT PAGE 3 OF SURREBUTTAL TESTIMONY REGARDING UNIQUE AND FIRM SIZE?

A. I am a bit confused by Mr. Irvine's testimony. Mr. Irvine testifies that unique risk can be diversified away by investors holding diversified portfolios. I have not testified in opposition to this view point. It is apparent Mr. Irvine is disregarding my Rebuttal Testimony on this subject. *See* Bourassa RB at 14-15. Mr. Irvine's arguments assume that the market data for the large publicly traded water utility companies captures the risks for small water utilities like Goodman. That is, the publicly traded water utility sample group is directly comparable to Goodman. It is not. Therefore, I am not speaking of unique risks with respect to Goodman.

The risks associated with small size, lack of diversification, limited revenue and cash flow, small customer base, lack of liquidity, as well as regulatory and construction risk are common to small water utilities. These risks are unique only in the sense that the large publicly traded water utilities do not possess these same levels of risk. As I testified, investors would price the risks differently in the market. *Id.*

Both Staff and I use a sample of publicly traded water utility companies as a starting point in our respective cost of equity analyses. However, unlike Mr. Irvine, who starts and ends that analysis, I recognize that the Goodman, like other small water utilities in Arizona, is not directly comparable. The problem is, we simply do not have market data for small water utilities to directly assess how an investor would price those risks.

Firm size is not a unique risk as Mr. Irvine asserts. *See* Surrebuttal Testimony of Steven P. Irvine ("Irvine SB") at 4. The size phenomenon is well documented in the financial literature. I have previously testified to studies by Dr. Zepp and the California Public Utilities Commission ("CPUC"). *See* Bourassa RB at 16 and 17. Small companies have very different returns than large ones and on average those returns have been higher. Ibbotson Associates' widely used compilation of historical returns from 1926 to the present reinforces the evidence (*See* Stocks, Bonds, Bills and Inflation 2006 Year Book, Ibbotson Associates, Chicago, 2005). Ibbotson Associates' well-known historical return series covering the period from 1926 to the present shows the average annual return of 12.3% is for large company stocks while returns for micro-cap, low-cap and mid-cap stocks are 18.8%, 15.7%, and 14.2%, respectively, significantly higher than those for large company stocks. The size effect is particularly relevant for small utilities. Not only do these small utilities possess higher risks than their larger counterparts, they are subjected to a significant size effect, strongly suggesting that their cost of equity is higher.

The view that small water utilities are not directly comparable to the large publicly traded water utilities does not violate any tenet of modern financial theory. Modern financial theory of investment behavior rests on the notion that the specific risk component not explained by the market can be diversified away by the investor. In the instant case, we are not talking about the specific risks to Goodman

per se, but the market risk associated with small water utilities like Goodman which we unable to measure.

Q. PLEASE RESPOND TO MR. IRVINE'S COMMENTS ON PAGE 4 OF HIS SURREBUTTAL TESTIMONY THAT THE COMMISSION IS NOT BOUND BY DECISIONS, POLICIES, OR STAFF MEMORANDUMS OF THE CALIFORNIA PUBLIC UTILITIES COMMISSION.

A. I never testified this Commission was bound by any action of the California Public Utilities Commission ("CPUC"). Once again, Mr. Irvine misses the point. My point in referencing the returns allowed by the CPUC for small utilities is four-fold. First, others, like the CPUC, recognize that large utility companies are not directly comparable to small ones and that there is no market data for small water utilities. Second, others, like the CPUC, recognize that there is a distinct difference between large and small utilities in terms of business and operational risks. Third, because the business and operational risks associated with small water utilities is higher, small water utilities require higher returns. And fourth, the CPUC guidelines provide for returns for small water utilities far in excess of the return I recommend in the instant case. Should this lead us to conclude that the regulatory risks associated with operating a utility in California are less than a utility operating in Arizona?

Q. PLEASE RESPOND TO MR. IRVINE'S REFERENCES TO THE ANNIE WONG STUDY ON THE FIRM SIZE EFFECT FOR WATER UTLITIES ON PAGE 5 OF HIS SURREBUTTAL TESTIMONY.

A. Mr. Irvine has referred to this study before. Ms. Wong's study and her conclusions have been disputed and called into question by Dr. Zepp[1]. Dr. Zepp concluded:

[1] Zepp, Thomas M. (2002, August). Utility Stocks and the size effect – revisited. *The Quarterly Review of Economics and Finance*, 578-582.

> Wong's concluding remarks should be re-examined and placed into perspective. She noted that industrial betas tend to decrease with increases in firm size but the same relationship is not found in every period for utilities. Had longer time intervals been used to estimate betas, as was done in Table 1, she may have found the same inverse relationship between size and beta risk for utilities in other periods. She also concludes "there is some weak evidence that firm size is a missing factor from the CAPM for the industrial but not the utility stocks" (Wong, 1993, p. 98), but the weak evidence provides little support for a small firm effect existing or not existing in the in either the industrial or utility sector. Two other studies discussed here support a conclusion that smaller water utilities are more risky than larger ones. To the extent that water utilities are representative of all utilities, there is support for smaller utilities being more risky than larger ones. *Id.* at 582

Regardless of whether one chooses to accept Ms. Wong's conclusions, Ms. Wong's study encompassed the utility industry which included both electric and gas utilities and did not focus on water utilities. Further, the average market value of the smallest utility portfolio in her study in 1993 was $62 million – 40 to 50 times larger than is Goodman. When I speak about the various risks associated with Goodman's small size, limited revenue, limited customer growth and lack of liquidity, I am talking about risks which have not been priced by investors and are not reflected in any available market data. Ms. Wong's study does not apply in the instant case.

But consider that if Goodman has a well failure or a transmission main break, the impact on the Company is far more serious than if Aqua American or California Water Service experiences a similar problem. Indeed, Goodman's earnings could be wiped out as available cash flow is diverted to repair or replace the well. For this reason, an investor would view an equity investment in Goodman much differently than an equity investment in the stock of a large publicly traded water utility, and would require a higher return on that investment. Otherwise, the investor would instead purchase Aqua America's stock, which would have less risk while promising a greater return.

C. **Response to Staff's Testimony on Comparisons to Actual and Authorized Returns.**

Q. PLEASE RESPOND TO MR. IRVINE'S COMMENTS ON PAGE 6 AND 7 OF HIS SURREBUTTAL TESTIMONY CONCERNING THE ROLE OF ACTUAL AND AUTHORIZED EARNINGS?

A. It is appears from his testimony that Mr. Irvine doesn't understand the basis for the comparable earnings method. As I previously discussed in my Direct Testimony, the comparable earnings approach is rooted in U.S. Supreme Court decisions, including *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591 (1944), and *Bluefield Waterworks & Improvement Co. v. Public Service Commission of West Virginia*, 262 U.S. 679 (1923). *See* Direct Testimony of Thomas Bourassa ("Bourassa DT") at 24 and 30.

Given these requirements, it would be myopic at best to simply ignore actual and authorized returns on equity. The goal is to authorize a return on equity that is equal to the return on investments with similar risk. Mr. Irvine is exclusively advocating that the results of his finance models should be used without regard to whether the results of those models are consistent with the actual and authorized earnings of the companies he has used to implement his finance models. I am not surprised. Mr. Irvine does not even acknowledge the criteria set forth by *Hope* and *Bluefield* anywhere in his testimony. The basis of his entire testimony is that expected returns may only be estimated with market based models such as the DCF and CAPM. This simply ignores reality. If a company has consistently earned returns on equity between 10% and 11% during the past 5 years, and is projected to continue to earn a return on equity within that range, why would an investor reject that information and, instead, choose to rely solely on a finance model? In fact, why would investment services such as Value Line and Standard & Poor's publish historic information regarding a company's earnings if expected returns can only be

estimated by using finance models? They wouldn't have much of a market for their products.

Q. DO YOU AGREE WITH MR. IRVINE THAT INCREASES IN INTEREST RATES DO NOT NECESSARILY AFFECT THE COST OF CAPITAL?

A. No. Equity costs move in the same direction as interest rates. Mr. Irvine would agree. *See* Irvine DT at 7 and 9. Staff's models do not bear this out. I have prepared the table below, which shows the comparison of the key cost of capital determinants and Staff's cost of equity results since 2003.

COMPARISON OF KEY COST OF CAPITAL DETERMINANTS AND STAFF COST OF EQUITY MODEL RESULTS

Testimony Date	Arizona Water Utility	Average Beta[2]	Risk-Free Rate[3]	Staff ROE[4]
7/8/03	Arizona. Water	0.59	3.3%	9.2%
9/5/03	Arizona-American	0.59	3.3%	9.2%
10/31/03	Arizona-American	0.60	3.6%	8.5%
3/11/04	Rio Rico Utilities	0.62	3.5%	8.1%
5/6/04	Rio Rico Utilities	0.63	3.9%	8.6%
3/22/05	Chap. City Water	0.68	4.0%	8.9%
4/18/05	Arizona. Water	0.68	4.5%	9.1%
5/5/05	Chap. City Water	0.68	4.0%	9.3%
5/25/05	Arizona. Water	0.68	4.0%	9.1%
1/16/06	Arizona-American	0.71	4.6%	9.8%

[2] The average Value Line beta of the six publicly traded water utilities in Staff's sample group used in Staff's CAPM. The sample group is the same in each case.

[3] Average of 10, 7 and 5-year Treasury notes used in Staff's CAPM in each case.

[4] The result produced by Staff's DCF and CAPM models in each case, unadjusted for risk.

Testimony Date	Arizona Water Utility	Average Beta[2]	Risk-Free Rate[3]	Staff ROE[4]
3/6/06	Arizona-American	0.74	4.5%	9.5%
4/11/06	Far West Water	0.74	4.6%	9.2%
6/13/06	Black Mountain Sewer	0.74	5.1%	9.6%
6/16/06	Gold Canyon Sewer	0.74	5.1%	9.2%
01/12/07	Goodman Water Company	0.82	4.7%	9.3%

As the table shows, interest rates have risen significantly since mid-2003. Staff's estimate of the risk free rate has risen by 140 basis points. Yet, Staff's recommended cost of equity is exactly the same as the ROE produced by Staff's models (using the *same* approaches and the *same* sample water utilities) in the Arizona Water and Arizona American rate cases in 2003. A closer look at the data for Arizona-American in 2003 and Rio Rico Utilities in 2004 show that the cost of equity produced by Staff DCF and CAPM models actually fell while the interest rates were rising.

What is also disturbing, as the table shows, beta has also increased significantly since 2003, increasing from .59 in 2003 to .82 in the instant case. Beta is a measure of a stock's riskiness relative to the market as a whole. Mr. Irvine would agree that as risk increases, so does the cost of equity. *See* Irvine DT at 9. While I have problems with the CAPM and the beta used by both Staff, beta itself is valid measure of the relative riskiness of a stock, a higher beta means more risk.

Q. WHAT DOES THE DATA IN THE TABLE ABOVE SHOW?

A. Although both interest rates and the average beta of Staff's sample group have increased substantially since 2003, Staff's DCF and CAPM models ignore the increased risk. Increases in both beta risk and interest rates since 2003 indicate the cost of equity is much higher today. As both interest rates and beta risk increase, so should the cost of equity. Yet, Staff's finance models suggest otherwise. I can only conclude there is something seriously wrong with Staff's models.

Q. IS THE AVERAGE BETA AND THE RISK FREE RATE THE ONLY DETERMINANTS OF THE COST OF EQUITY AND WHY HAVE YOU NOT SHOWN OTHERS?

A. No. There are numerous components of and calculations required to implement the DCF and CAPM models. But, unlike the risk free rate and beta, which are objective, the other determinants of the cost of capital are subjective.

Q. PLEASE EXPLAIN.

A. Beta and the risk free rates are objectively determined from publicly available information. The risk free rates are published by the Federal Reserve. Betas are published by Value Line. Wherever a subjective determination is required, however, Staff chooses the approach that result in the lowest ROE. For example, when computing the current market risk premium for Staff's current market risk premium CAPM, Staff uses median values for the dividend yield and price appreciation potential which significantly understates the cost of equity. See Bourassa RB at 33-34.

D. <u>Response to Staff's Testimony on the Use of Analyst Forecasts.</u>

Q. PLEASE COMMENT ON MR. IRIVINE'S TESTIMONY AND PAGE 8 OF HIS SURREBUTTAL THAT HISTORICAL GROWTH RATES ARE LESS SUBJECTIVE BECAUSE THEY ARE BASED ON CALCULATIONS?

A. Mr. Irvine's assertion that historical growth rates are less subjective because they are based on calculations is puzzling. A calculation of historical growth rates are

what they are. The point is, when estimating investor expectations using those growth rates in a prospective model is subjective and provides no more a balanced approach than using only analyst expectations. I have already testified to the reasons why I chose to use analyst expectations and the superiority of the use of analyst expectations in estimating the cost of equity and will not repeat them here. *See* Bourassa RB at 25-28.

Q. CAN YOU COMMENT ON MR. IRVINE' SURREBUTTAL TESTIMONY CONCERNING YOUR EXCLUSION OF HISTORICAL DPS AND EPS GROWTH RATES FROM THE DCF MODEL?

A. Mr. Irvine defends the use of historical DPS and EPS growth rates asserting that this provides a balanced and reasonable outcome, which is supposedly Staff's objective. *See* Irvine SB at 9. Mr. Irvine goes on to testify that if the low growth rates were to be excluded from Staff's growth estimate then it would also be appropriate to exclude the highest growth estimates. *Id.* The difference is that there is a sound basis for excluding the historical growth rates, but not the projected growth rates. As I previously testified, the indicated costs of equity using historical DPS growth estimates are at or below the cost of debt. *See* Bourassa DT at 38. In addition, in estimating future growth, financial institutions and analysts have taken into account all relevant historical information on a company as well as other more recent information. These were the reasons why I excluded the historical growth rates from my analysis. *See* Bourassa DT at 37 and Bourassa RB at 24.

The highest growth rates by either Staff or Goodman actually produce results within the ranges of my risk premium approaches and my comparable earnings approaches. Thus, there is no reason to exclude them.

Q. PLEASE EXPLAIN.

A. In Rejoinder Schedule D-4.5, the highest projected average EPS growth estimates are from Value Line at 9.0 percent. The average dividend yield of the water utilities sample is 2.7 percent. The indicated cost of equity using the constant

growth DCF model is 11.7 percent. Looking at it from Staff's perspective, Staff's highest growth rates are 7.9% and 8.4% for projected EPS growth and projected sustainable growth, respectively. The average of these two is 8.2 percent. Staff's average dividend yield is 2.8 percent. The indicated cost of equity using the constant growth DCF model is 11.0%.

I have also shown that the average total market returns for the water utilities sample during the past 5 years have been 14.2 percent (14.3 percent compounded). *See* Bourassa RB at 20. In addition, I have shown that a market based bond risk premium based on the water utility sample and the current yield on long-term government bonds indicates a cost of equity of over 17 percent. Historically investors have received returns far greater than Staff's recommend 9.3 percent and far greater than my recommendation for Goodman of 10.5%. As the evidence shows, the highest growth rates should not be excluded because there is no rational basis to do so.

Q. DOES MR. IRVINE CRITICIZE YOUR COMPUTATION OF THE 14.2 PERCENT TOTAL MARKET RETURNS?

A. Yes, Mr. Irvine finds the computation of the number unclear. *See* Irvine SB at 7. The basis for the average 5 year total market returns is based on Value Line data published on October 27, 2006 and the 14.2 percent is a simple average. These reports are attached hereto as Rejoinder Exhibit No. 3. Putting this aside, Mr. Irvine then criticizes the 14.2 percent because it doesn't recognize compounding and the compounded growth would be much lower. *Id.* But, in fact, the average and the compound returns in the instant case happen to be nearly identical.

E. <u>Response to Staff's Testimony on the Staff's Inputs.</u>

Q. PLEASE COMMENT ON MR. IRVINE'S TESTIMONY THAT STAFF DOES NOT EXCLUDE INPUTS BECAUSE THEY ARE AT OR BELOW A

SELECTED BENCHMARK AND ARE VIEWED AS TOO HIGH OR TOO LOW?

A. Mr. Irvine's comments reinforce my point that Staff does not provide for a reality check on the results of their models. *See* Bourassa RB at 21-22. Mr. Irvine mechanically applies his finance models and accepts the results without applying any critical analysis.

F. Response to Staff's Testimony on the CAPM.

Q. IS IT INCORRECT TO CONCLUDE THAT CHANGES IN STAFF'S CURRENT MRP OVER TIME SIGNIFY INSTABILITY IN STAFF'S METHOD FOR DETERMINING THE MRP AS MR. IRIVE ASSERTS ON PAGE 10 OF HIS SURREBUTTAL TESTIMONY?

A. Yes. Staff's current MRP methodology is very unstable. The fact that the current MRP is a reflection of changes in the market does not change that fact. Statistically, it is better to use estimates based on period-by-period time-series of data rather than a point-in-time estimate. Time-series estimate are less vulnerable to the vagaries of any one particular capital market environment.[5]

Q. HAVE YOU PREPARED DATA TO FURTHER ILLUSTRATE THE VOLATILITY OF STAFF'S "CURRENT" MRP CALCULATION?

A. Yes. I have prepared the table that shows the key determinants of Staff's current MRP calculation and the resulting MRP for selected dates from December 2005 to December 2006:

Date	Long-Term Treasury Rate	Value Line Dividend Yield	Value Line Appreciation Potential	Current MRP	Indicated Cost of equity
12/22/2005	4.63%	1.6%	40%	5.75%	8.9%
01/24/2006	4.63%	1.6%	35%	4.76%	8.2%
02/24/2006	4.52%	1.6%	35%	4.87%	8.1%

[5] Roger A. Morin. New Regulatory Finance. 2006. Public Utility Reports, Inc. p. 131.

Date	Long-Term Treasury Rate	Value Line Dividend Yield	Value Line Appreciation Potential	Current MRP	Indicated Cost of equity
03/24/2006	4.70%	1.6%	35%	4.69%	8.2%
04/24/2006	5.10%	1.6%	40%	5.28%	9.0%
06/16/2006	5.17%	1.7%	50%	7.20%	10.5%

The data show Staff's current MRP has varied over 250 basis points in this short time period, dropping from 5.75% in December to 4.76% in January, then dropping further to 4.69% in March, before increasing over 250 basis points to 7.20% in June. Obviously, this volatility raises serious questions about the use of the cost of equity estimate produced with this input. In the instant case, and in just the few months between Staff's Direct and Surrebuttal filings, the current MRP has decreased by 110 basis points and the indicated cost of equity has decreased by 90 basis points. What will the MRP be at the time Goodman's rates will go into effect using Staff's formula?

Irrespective of whether Staff intentionally or unintentionally selects the dates upon which it determines the current MRP and computes a CAPM COE, the fact is the method is very unstable and a more stable method should be employed. The current cost of equity for purposes of setting rates should be the cost of equity expected when Goodman's new rates will be in effect, not at a single point in time.

Q. DO YOU AGREE WITH MR. IRVINE THAT THE MEDIAN VALUES FOR THE DIVIDEND YIELD AND THE PRICE APPRECIATION POTENTIAL ARE MORE APPROPRIATE BECAUSE THEY ARE MORE ACCESSIBLE TO INVESTORS?

A. No. Value Line publishes the projected EPS and DPS growth rates for the water utility sample companies and these are readily available to investors. Yet, Staff makes a calculation of its own rather than use the published growth rates. Interestingly, and as I pointed out in my Rebuttal Testimony, the published rates

produce projected DPS and EPS growth rates significantly higher than Staff's computed growth rates. *See* Bourassa RB at 32. Clearly, Mr. Irvine has made choices in the selection of inputs which are not premised on whether the inputs are readily available to investors. Putting this aside, Mr. Irvine's choices ultimately skew his results downward. *See* Bourassa RB at 34.

Q. DO YOU AGREE WITH MR. IRVINE THAT THE SELECTION OF THE MEDIANS RATHER THAN THE AVERAGE IS NOT MEANT TO REDUCE STAFF'S COE ESTIMATION BECAUSE ONE CANNOT KNOW IN ADVANCE WHETHER A RANDOM SET OF DATA WILL HAVE A HIGHER MEDIAN OR AVERAGE?

A. No. Mr. Irvine has admitted that he never computed the averages to see what differences between the two sets of values were. Yet, he concludes without any evident basis that his choice is fair and reasonable. *See* Bourassa RB at 34.

V. RATE DESIGN.

Q. PLEASE SUMMARIZE THE POSITIONS OF THE PARTIES WITH RESPECT TO THE RATE DESIGN.

A. The primary difference between Staff and the Company's rate design is that Staff is recommending a three tier design for the 5/8 inch and ¾ inch metered customers and two-tier designs for the larger meters. Each size meter larger than 5/8 inch meter have distinct two-tier design whereas the Company has proposed three tier designs for all meter sizes and has only two separate tier structures - one for the ¾ inch and smaller meters and one for the 1 inch and larger meters.

Both Staff and the Company's monthly minimums are scaled on the 5/8 inch meter.

Q. DOES THE COMPANY RECOMMEND ANY CHANGES AT THIS TIME TO ITS RATE DESIGN?

A. No.

Attached to this Rejoinder as Exhibit No. 4 are the Company's revised Rejoinder Schedules A-1 through H-4.

Q. WHAT ARE THE COMPANY'S REJOINDER PROPOSED RATES?

A. The rejoinder proposed rates for customers with a water meter size of:

Meter Size	Monthly Minimum	Gallons included in Monthly Minimum
5/8	$ 44.87	0
3/4	$ 67.31	0
1	$ 112.19	0
1 ½	$ 224.37	0
2	$ 358.99	0
3	$ 673.11	0
4	$1,121.85	0
6	$2,243.70	0

The commodity charges and tiers by meter size are:

Meter Size	Tier (gallons)	Charge per 1,000 gallons
⅝ and ¾ Inch	1 to 4,000	$ 5.02
	4,001 to 10,000	$ 6.72
	Over 10,000	$ 7.72
1 Inch and larger	1 to 10,000	$ 5.02
	10,001 to 25,000	$ 6.72
	Over 25,000	$ 7.72

The proposed construction meter and standpipe rate is $7.72 per 1,000 gallons with no minimum monthly charge.

Q. DOES STAFF AGREE TO THE COMPANY'S PROPOSED CHANGES TO ITS OTHER RATES AND CHARGES?

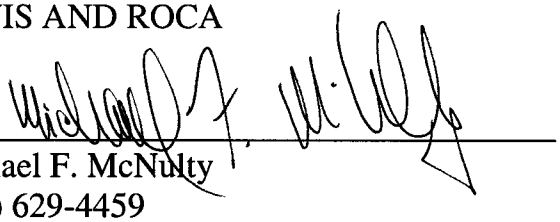
A. Yes, except for the late charge. The Company recommends a $10.00 late charge while Staff recommends a late charge of 1.5% per month. *See* Myhlhousen RB at 9. The Company proposes a compromise of 1.5% per month or $5.00 which ever is greater. As I previously testified, a late charge should encourage prompt and timely payment of customer bills. A late fee of 1.5% on a $50.00 unpaid bill amounts to 75 cents and hardly encourages prompt payment.

Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

RESPECTFULLY SUBMITTED this 22nd day of January, 2007.

LEWIS AND ROCA



Michael F. McNulty
(520) 629-4459
Lewis and Roca, LLP
One South Church Avenue, Suite 700
Tucson, Arizona 85701-1611
Attorneys for Goodman Water Company

ORIGINAL AND thirteen (13) copies of the foregoing delivered VIA DHL this 22nd day of January, 2007:

Arizona Corporation Commission
Utilities Division – Docket Control
1200 West Washington Street
Phoenix, Arizona 85007

COPY of the foregoing delivered VIA U.S. MAIL this 22nd day of January, 2007

Goodman Water Company
6340 North Campbell Avenue, Suite 278
Tucson, AZ 85718

Christopher Kempley, Chief Counsel
Legal Division
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007

Ernest Johnson, Director
Utilities Division
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007

Interveners
Graciela Peschard-Abkin
39705 S. Mountain Shadow Drive
Tucson, AZ 85739

Patricia Friedrich
PO Box 8165
Tucson, AZ 85738

Dean and Raynelle Duhl
60895 Rock Ledge Loop
Tucson, AZ 85739

LEWIS AND ROCA LLP LAWYERS

Interveners Continued

Heather Robinson
60368 E. Loose Reins Pl.
Tucson, AZ 85739

Stewart Wallace
60901 East Rock Ledge Loop
Tucson, AZ 85739

Lawrence Wawrzyniak
39485 S. Mountain Shadow Drive
Tucson, AZ 85739

Louis and Pauline Gurrieri
39261 S. Mountain Shadow Drive
Tucson, AZ 85739

Joy Vincent
39460 S. Mountain Shadow Drive
Tucson, AZ 85739

Michael D. Oaks
39443 S. Cinch Strap Place
Tucson, AZ 85739

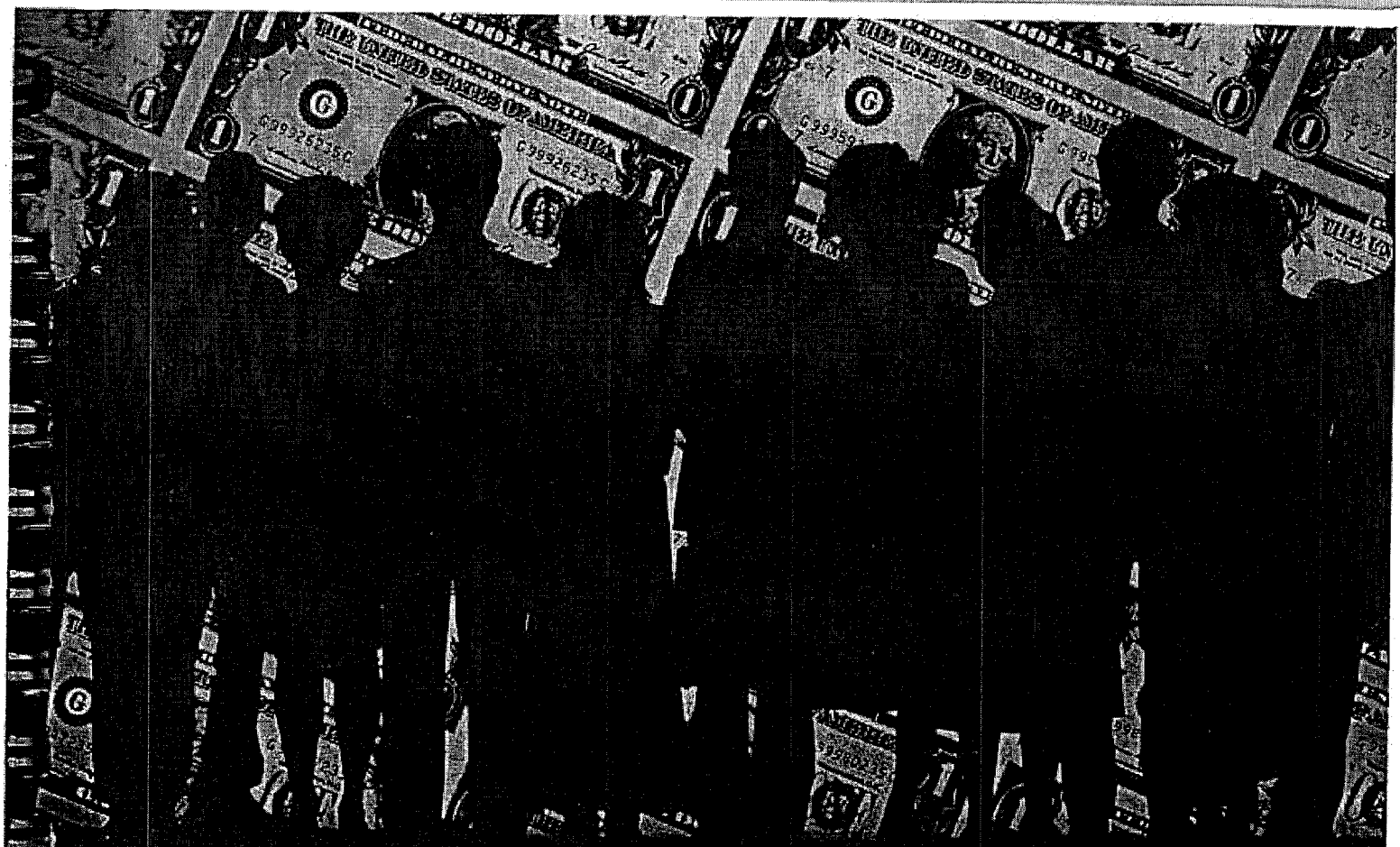
John H. Reese
39436 S. Mountain Shadow Drive
Tucson, AZ 85739

Ellen Kirton
39327 S. Mountain Shadow Drive
Tucson, AZ 85739

Kevin Hernandez
39249 S. Mountain Shadow Drive
Tucson, AZ 85739

By: _____
Hope I. Bracken
Secretary to Michael F. McNulty

1



2006 AWWA Water Utility Compensation Survey

American Water Works Association

Advocacy
- ***Communications***

Conferences
Education and Training
Science and Technology
Sections

JOB DESCRIPTIONS

1 **Top Executive**
Under general direction of the city, managing Board of Directors, mayor, or Board of Water Commissioners, is responsible for managing, planning, coordinating and administering all activities of the Water Department and/or water company. Responsible for the short and long range strategy of the organization subject to review by the Board.

2 **Top Planning Executive**
Responsible for functions relating to raw water development planning, protection and operation; hydraulic system planning; demographics, land use and plan review; and capital program development, both long and short range.

3 **Top Operations & Maintenance Executive**
Directs and administers the Operations/Maintenance Division functions of Source and Supply, Water Treatment, Water Quality, Water Control, Transmission and Distribution, Maintenance and Process Control.

4 **Top Engineering Executive**
Responsible for administering all engineering/construction programs, including special projects and the design and construction of Departmental facilities.

5 **Top Internal Audit Executive**
Responsible for the internal audit function, including the analysis and auditing of divisional and sectional operations.

6 **Top Public Affairs Executive**
Responsible for the public affairs function, which includes the areas of: media relations; conservation; intergovernmental relations; environmental coordination, and community affairs. Reviews, analyzes and recommends Board policy.

7 **Top Finance Executive**
Responsible for management of the Department's financial resources, including acting as the dispersing authority for the Top Executive. Directs and manages the Accounting, Treasury and Budget Operations, Rate Administration, Contract and Information Services Sections.

8 **Top Administration Executive**
Under general direction of the Top Executive, is responsible for all administrative functions, including Human Resources, the Affirmative Action Program, Customer Services, General Services, Administrative Services and Property Administration.

9 **Top Legal Executive**
Responsible for providing legal advice to the Board and Top Executive on all matters submitted, and rendering opinions on their legal implications. Manages a staff which is skilled in legal research, litigation, legal counseling, and contract and property matters.

10 **Top Human Resources Executive**
Responsible for the formulation, administration and direction of all human resource programs including: recruitment, selection and employment, compensation, benefits, training and employee relations.

11 **Conservation Manager**
Designs, directs, administers and ensures operation of the Department's Conservation Program. Serves as the Department's representative on all local, state or federal conservation organizations.

12 **Information Services Manager**
Responsible for all Information Services activities including: equipment selection, systems analysis, and programming and operations. Provides liaison with authorized users of information processing services, and develop techniques and methods for improving Departmental activities.

13 **Water Resource Planning Manager**
Responsible for the analysis, implementation, internal coordination and direction necessary for development of present and future raw water resources, including hydropower, and for the protection of water rights associated with these water resources.

14 **Water Operations Manager**
Responsible for the operation of the water distribution system, and control of the flow of filtered water into and throughout the system; plans and supervises the operation of all pumping stations and distribution reservoirs; supervises leak detection activities and 24-hour service department.

15 **Water Maintenance Manager**
Responsible for the construction and maintenance of the finished water distribution system and related facilities.

16 **Fleet/Building Maintenance Manager**
Plans, manages, directs and supervises the operation and maintenance activities of the various skilled craft shops in the Section, and the fleet maintenance, transportation, and building and grounds maintenance functions.

17 **Procurement Manager**
Responsible for planning, managing, coordinating and administering the Purchasing function.

Water Utility Compensation Survey - 2006

All Participants

Job 01 - Top Executive

Under general direction of the city, managing Board of Directors, mayor, or Board of Water Commissioners is responsible for managing, planning, coordinating and administering all activities of the Water Department and/or water company. Responsible for the short and long range strategy of the organization subject to review by the Board.

Summary of All Reported Data by Ownership/Management Type

Type	# of Utilities	# of Employees	Avg. # of Ees Sup	50th Percentile	Co Wtd Avg Pay	Employee Wtd Avg Pay	Average Salary Range		
							Min	Mid	Max
Board Operated	304	303	77	$95,074	$106,383	$106,360	$83,063	$100,246	$120,518
City/County	262	247	167	$93,650	$96,297	$96,297	$77,004	$93,813	$109,418
Private	11	11	270	$138,000	$176,982	$176,982	*	*	*
Other	22	22	69	$91,655	$112,645	$112,645	$118,458	$142,989	$168,100
All	599	583	116	$94,905	$103,655	$103,666	$80,715	$98,760	$116,185

Summary of All Reported Data by Population Size

Type	# of Utilities	# of Employees	Avg. # of Ees Sup	50th Percentile	Co Wtd Avg Pay	Employee Wtd Avg Pay	Average Salary Range		
							Min	Mid	Max
Over 250,000	62	58	656	$142,220	$168,118	$168,118	$116,037	$146,449	$173,646
100 - 250,000	67	66	233	$116,500	$124,681	$124,681	$91,518	$112,545	$131,987
50 - 100,000	90	84	86	$107,658	$115,910	$115,910	$82,435	$98,510	$117,366
25 - 50,000	123	120	56	$94,905	$100,008	$100,008	$74,684	$92,038	$106,604
10 - 25,000	151	151	27	$83,353	$87,603	$88,179	$69,660	$81,065	$99,514
< 10,000	106	104	16	$69,250	$71,205	$71,205	$55,586	$66,025	$77,390

Summary of All Reported Data by Average Gallons Managed

Type	# of Utilities	# of Employees	Avg. # of Ees Sup	50th Percentile	Co Wtd Avg Pay	Employee Wtd Avg Pay	Average Salary Range		
							Min	Mid	Max
Over 250	21	20	799	$147,689	$165,539	$165,539	$117,795	$169,689	$191,812
100 - 250 Mil	21	21	564	$139,774	$151,748	$151,748	$104,822	$122,409	$150,063
50 - 100 Mil	31	30	417	$131,244	$153,917	$153,917	$107,782	$129,803	$157,498
25 - 50 Mil	60	57	168	$120,159	$131,160	$131,160	$93,702	$115,825	$134,383
10 - 25 Mil	81	77	129	$101,256	$108,830	$108,830	$82,397	$98,746	$118,730
< 10 Mil	382	375	32	$83,055	$87,840	$88,066	$69,205	$83,395	$97,868

Summary of All Reported Data by Total Employment

Type	# of Utilities	# of Employees	Avg. # of Ees Sup	50th Percentile	Co Wtd Avg Pay	Employee Wtd Avg Pay	Average Salary Range		
							Min	Mid	Max
Over 500	35	34	1,040	$177,815	$190,452	$190,452	$136,342	$160,981	$205,516
200 - 500	52	48	297	$116,248	$133,633	$133,633	$98,593	$123,180	$144,169
100 - 200	80	79	149	$107,000	$117,620	$117,620	$82,251	$98,788	$118,630
50 - 100	100	95	77	$103,002	$109,553	$109,553	$82,746	$101,718	$118,648
25 - 50	112	108	36	$90,841	$93,889	$93,889	$71,293	$83,724	$101,326
< 25	220	219	12	$75,289	$80,296	$80,860	$65,659	$77,241	$92,455

Water Utility Compensation Survey - 2006

All Participants

Job 01 - Top Executive

Summary of All Reported Data by AWWA Section

Type	# of Utilities	# of Employees	Avg. # of Ees Sup	50th Percentile	Co Wtd Avg Pay	Employee Wtd Avg Pay	Average Salary Range		
							Min	Mid	Max
AKA	1	1	*	*	*	*	*	*	*
ALA	18	18	71	$82,014	$87,380	$87,380	$61,831	$73,537	$88,693
ARI	8	8	*	$124,259	$127,821	$127,821	$98,883	*	$144,491
CAL	68	61	81	$138,732	$147,061	$147,061	$115,078	$134,705	$149,945
CHS	6	5	*	$139,774	$141,362	$141,362	$90,505	*	$130,044
CON	2	2	*	*	*	*	*	*	*
FLA	27	25	216	$107,999	$106,153	$106,153	$77,086	$104,522	$120,130
GEO	19	19	150	$96,600	$93,780	$93,780	$72,339	$90,704	$109,795
HWI	2	2	*	*	*	*	*	*	*
ILL	17	15	25	$96,000	$99,244	$99,244	$74,863	$88,042	$107,637
IND	9	8	26	$59,449	$66,379	$66,379	*	*	*
INT	7	7	122	$105,000	$100,883	$100,883	$76,489	$102,463	$121,606
IWA	16	21	38	$104,260	$100,530	$101,594	$82,084	$89,567	$113,348
KAN	13	13	*	$74,953	$87,459	$87,459	$87,470	$121,512	$124,018
KNT	32	32	121	$72,879	$84,659	$84,659	$63,952	$75,649	$95,513
MIC	18	16	66	$90,426	$91,644	$91,644	$73,757	$83,571	$98,009
MIN	12	11	13	$75,750	$85,747	$85,747	*	*	*
MOU	14	14	323	$92,683	$121,322	$121,322	$111,898	$176,159	$183,224
MTN	2	2	*	*	*	*	*	*	*
NDK	3	3	*	*	*	*	*	*	*
NEB	3	3	*	*	*	*	*	*	*
NEJ	6	6	*	$115,026	$139,082	$139,082	*	*	*
NEW	22	22	19	$77,002	$84,583	$84,583	$64,246	$78,132	$93,113
NEY	15	15	60	$90,144	$99,879	$99,879	$75,103	$84,574	$93,124
NOC	19	18	268	$97,012	$104,695	$104,695	$77,242	$99,027	$120,030
OHO	29	29	128	$76,756	$80,495	$80,495	$58,781	$78,524	$85,474
PAC	32	31	61	$103,000	$102,568	$102,568	$77,343	$95,765	$111,667
PEN	27	27	52	$83,200	$94,593	$94,593	*	*	*
RMT	28	26	227	$102,790	$107,070	$107,070	$85,061	$107,699	$126,219
RTM	1	1	*	*	*	*	*	*	*
SCR	13	13	67	$100,077	$103,999	$103,999	$67,781	$82,469	$99,993
SDK	10	9	10	$74,950	$80,433	$80,433	*	*	*
SOW	22	22	146	$75,500	$105,440	$105,440	$84,629	*	$118,859
TEX	46	46	238	$99,751	$108,040	$108,040	$71,523	$88,860	$105,251
VIR	13	13	149	$108,910	$108,013	$108,013	$72,748	$90,988	$111,166
WEV	2	2	*	*	*	*	*	*	*
WIS	16	16	38	$93,045	$95,840	$95,840	$74,194	$92,095	$105,910

Water Utility Compensation Survey - 2006

All Participants

Job 03 - Top Operations & Maintenance Executive

Directs and administers the Operations/Maintenance Division functions of Source and Supply, Water Treatment, Water Quality, Water Control, Transmission and Distribution, Maintenance and Process Control.

Summary of All Reported Data by Ownership/Management Type

Type	# of Utilities	# of Employees	Avg. # of Ees Sup	50th Percentile	Co Wtd Avg Pay	Employee Wtd Avg Pay	Average Salary Range		
							Min	Mid	Max
Board Operated	153	147	51	$89,700	$92,399	$92,399	$77,079	$93,581	$109,839
City/County	152	147	60	$77,000	$80,177	$80,177	$65,613	$78,635	$92,120
Private	8	8	303	$114,670	$138,298	$138,298	*	*	*
Other	10	9	44	$85,300	$96,092	$96,092	$80,376	$95,680	$111,900
All	333	311	61	$82,178	$87,909	$87,909	$71,314	$85,978	$100,955

Summary of All Reported Data by Population Size

Type	# of Utilities	# of Employees	Avg. # of Ees Sup	50th Percentile	Co Wtd Avg Pay	Employee Wtd Avg Pay	Average Salary Range		
							Min	Mid	Max
Over 250,000	50	48	199	$116,707	$122,407	$122,407	$90,719	$114,134	$135,197
100 - 250,000	53	51	88	$91,665	$96,429	$96,429	$74,782	$91,794	$106,440
50 - 100,000	55	51	44	$89,000	$92,391	$92,391	$71,061	$82,330	$98,734
25 - 50,000	64	59	17	$77,244	$80,542	$80,542	$65,096	$77,921	$90,626
10 - 25,000	74	66	14	$67,938	$72,231	$72,231	$62,734	$72,619	$86,372
< 10,000	37	36	13	$61,057	$64,312	$64,312	$52,830	$63,108	$70,399

Summary of All Reported Data by Average Gallons Managed

Type	# of Utilities	# of Employees	Avg. # of Ees Sup	50th Percentile	Co Wtd Avg Pay	Employee Wtd Avg Pay	Average Salary Range		
							Min	Mid	Max
Over 250	13	13	376	$115,910	$115,167	$115,167	$102,623	$132,853	$157,090
100 - 250 Mil	18	18	215	$123,114	$130,324	$130,324	$93,033	$115,930	$138,589
50 - 100 Mil	23	22	94	$103,634	$116,703	$116,703	$82,147	$97,666	$116,832
25 - 50 Mil	42	38	77	$97,537	$96,900	$96,900	$77,761	$84,859	$111,649
10 - 25 Mil	56	51	40	$87,216	$88,184	$88,184	$71,206	$84,457	$99,328
< 10 Mil	179	167	16	$71,000	$74,584	$74,584	$61,953	$73,569	$85,802

Summary of All Reported Data by Total Employment

Type	# of Utilities	# of Employees	Avg. # of Ees Sup	50th Percentile	Co Wtd Avg Pay	Employee Wtd Avg Pay	Average Salary Range		
							Min	Mid	Max
Over 500	33	32	308	$123,229	$128,584	$128,584	$101,369	$127,148	$151,442
200 - 500	37	33	80	$96,408	$103,419	$103,419	$77,652	$95,239	$113,401
100 - 200	56	54	45	$90,001	$93,992	$93,992	$70,526	$83,996	$100,189
50 - 100	68	61	28	$81,254	$83,776	$83,776	$68,191	$80,457	$93,346
25 - 50	46	44	18	$80,638	$81,316	$81,316	$65,502	$75,506	$90,418
< 25	93	87	12	$65,645	$69,523	$69,523	$59,131	$69,709	$81,650

Job 03 - Top Operations & Maintenance Executive

Summary of All Reported Data by Ownership/Management Type

Type	# of Utilities	# of Employees	Avg. # of Ees Sup	50th Percentile	Co Wtd Avg Pay	Employee Wtd Avg Pay	Average Salary Range Min	Mid	Max
Board Operated	73	69	37	$88,200	$89,899	$89,899	$78,182	$94,116	$109,621
City/County	36	33	101	$84,968	$82,247	$82,247	$72,235	$88,029	$101,827
Private	5	5	*	$116,500	$137,480	$137,480	*	*	*
Other	4	4	*	*	*	*	*	*	*
All	118	111	57	$87,192	$89,924	$89,924	$75,989	$91,850	$107,168

Summary of All Reported Data by Population Size

Type	# of Utilities	# of Employees	Avg. # of Ees Sup	50th Percentile	Co Wtd Avg Pay	Employee Wtd Avg Pay	Average Salary Range Min	Mid	Max
Over 250,000	22	21	139	$112,099	$120,841	$120,841	$92,096	$115,202	$134,984
100 - 250,000	14	14	98	$102,078	$98,698	$98,698	$83,721	$101,080	$112,200
50 - 100,000	20	17	63	$89,700	$101,433	$101,433	$77,331	$95,451	$107,449
25 - 50,000	24	24	11	$76,872	$79,539	$79,539	$61,795	$73,489	$89,587
10 - 25,000	27	24	11	$74,612	$73,528	$73,528	$66,757	$74,118	$90,541
< 10,000	11	11	4	$54,000	$60,378	$60,378	*	*	*

Summary of All Reported Data by Average Gallons Managed

Type	# of Utilities	# of Employees	Avg. # of Ees Sup	50th Percentile	Co Wtd Avg Pay	Employee Wtd Avg Pay	Average Salary Range Min	Mid	Max
Over 250	5	5	*	$100,700	$99,187	$99,187	*	*	*
100 - 250 Mil	8	8	193	$123,177	$133,975	$133,975	$99,765	$120,799	$142,967
50 - 100 Mil	11	10	79	$111,050	$128,134	$128,134	$91,364	$114,659	$129,652
25 - 50 Mil	14	13	80	$108,750	$105,341	$105,341	$80,638	$98,918	$116,993
10 - 25 Mil	17	15	35	$89,700	$91,081	$91,081	$77,798	$93,703	$101,023
< 10 Mil	63	60	12	$73,078	$73,281	$73,281	$61,281	$72,340	$86,483

Summary of All Reported Data by Total Employment

Type	# of Utilities	# of Employees	Avg. # of Ees Sup	50th Percentile	Co Wtd Avg Pay	Employee Wtd Avg Pay	Average Salary Range Min	Mid	Max
Over 500	10	9	348	$129,881	$128,966	$128,966	$124,623	$156,650	$178,972
200 - 500	13	13	80	$103,576	$115,392	$115,392	$83,094	$102,577	$116,486
100 - 200	12	12	54	$104,398	$109,597	$109,597	$74,366	$90,835	$109,032
50 - 100	18	15	42	$104,435	$95,285	$95,285	$81,570	$107,410	$112,262
25 - 50	15	15	17	$86,388	$84,643	$84,643	$65,499	$73,585	$94,035
< 25	50	47	9	$69,510	$70,355	$70,355	$61,336	$70,776	$84,969

2

CW3.A

CWH2 Services, LLC, 2831 W. Lambert Lane, Tucson AZ 85742

CWH2 Services, LLC

5/10/2004

Re; Management Agreement - Goodman Water Company
Attn; James Shiner
520-297-9217 via fax
From: Christopher W. Hill, CWH2 Services
297-2185, Cell 904-0741

CWH2 Services is pleased to offer professional management services to Goodman Water Company (Company). Management services will be provided by CWH2 Services, in the person of Christopher Hill serving in the capacity as General Manager for the Company. The relationship of CWH2 Services and the Company will be an independent contractor – client relationship. It is understood any additions to the management team require approval by the Company.

CWH2 Services responsibilities and duties include, but are not limited to:

1 – Review and comment on proposed plans, design and construction management.

2 – Assist in regulatory matters, i.e., ADEQ, ACC and any other regulatory, statutory and local.

3 – Establish or assist on work plan for system growth, i.e. future staffing, job descriptions, etc.

4 - Provide input (as requested and as observed) on any matters related to maintaining the highest standards of a professionally run water system.

5 – Monitor progress and activities of other professionals, as requested by the Company.

CXE

6 – Act as liaison representing Company in affairs associated with operation, design and construction of the Company.

7 – Provide flexibility in a professional environment to complete tasks as accepted by the Company.

8 – Work with Company's owners and Board of Directors, as needed.

9 – Supervise Company's certified operators on plant and distribution, governmental compliance, billing, water usage, etc.

10 – This agreement shall commence on full execution by the parties and terminate 90 days following written notice by either party to the other of termination.

11 – All notices shall be postage pre-paid and addressed:

CWH2 Services, LLC:
2831 W. Lambert Lane
Tucson, AZ 85742

Company:
3567 E. Sunrise Drive
Tucson, AZ 85718

Goodman Water Company

By: _____ 5-17-04
James Shimer Date

CWH2 Services, LLC

By: _____ 5-17-04
Christopher W. Hill Date

CWH2 Services, LLC, 2831 W. Lambert Lane, Tucson AZ 85742

Compensation

Base Rate - $400 Monthly, based on 200 Connections @ $2.00 per Connection – Incremental changes for each lot of 50 connections as follows:

Connections	Base per Month
200 – 249	$400
250 – 299	$500
300 - 349	$600
350 – 399	$700
.....	
1000	$2000

Counts shall be determined by monthly billing register.

Additional Compensation – Any services above Five Hours per Month (included time)* - $50 per hour till August, 2004; $75 per hour thereafter.

- Subject to the 12 month limit below, if less than 5 hours of serviced are utilized in any month, the unused portion will be added to the 5 hours of included time during any of the next 12 months.

Start up fee #500 dAS

CWH

AM3.10

yl Technology
HC #70 Box 3601 Sahuarita Az 85629 (520) 625-1671

Management Agreement

To operate and manage the Ground Water Distribution System and to provide Certified Operator Services at the Grade required for GOODMAN WATER COMPANY, an Arizona Corporation. The plant is located in Catalina, Arizona and is in Pinal County.

yl Technology, LLC, will provide services as General Manager and Certified Operator for Goodman Water Company. The parties agree as follows:

1. DESCRIPTION OF SERVICES.
   - 1.1 Administrating the field operation which encompasses monthly meter reading, meters will be read during the time frame as specified by the ACC, turn on and shutoff, well chlorination (as required), monitoring of well and associated equipment including the oil dripper, well production, and proper system pressure. Respond to call outs and general troubleshooting. Records of all plant visits, system preventive and corrective maintenance will be kept on file. Goodman Water Company will supply the necessary tools for the maintenance of the service area. An example of such tools could include leak detection equipment, line locators, meal detector, meter valve keys and hydrant wrenches whether the equipment is rented or purchased. All treatment plant chemicals, rental equipment, and outside contractors will be paid for by Goodman Water Company.
   - 1.2 Organize and contract out repairs as needed to the system, including meter installations, blue stakes, backhoes or other equipment such as a water main location device. It is understood that any repair to the system equipment or replacement of system equipment will be the financial responsibility of Goodman Water Company.
   - 1.3 Monitor and maintain water quality as required by ADEQ and EPA. All laboratory analysis will be performed on a timely basis, all records will be kept in a readily accessible manner. Site sampling plans, Emergency Operation Plans, Backflow Prevention Plans, and Consumer Confidence Reports will be kept current and filed with ADEQ. Laboratory costs are to be paid for by Goodman Water Company.
   - 1.4 Provide Certified Operator Services at the grade specified by the ADEQ requirements. Certified Operator Services include monthly sampling and annual sampling as required. We will keep the system in compliance with all ADEQ sampling requirements.
   - 1.5 At regulatory inspections, *yl Technology*, will be present to represent Goodman Water Company, to answer any questions and explain the system. Goodman Water Company will be responsible for fees paid to keep well site(s) and booster station(s) clean and ready for inspections
   - 1.6 Assistance with applications for rate increases, main line extension agreements, approval to construct, and other related documents required for water companies.
   - 1.7 Maintain accounting system including accounts payable, accounts receivable, general ledger, and fixed assets. Review and prepare cash flow projections and budgets. File monthly sales and muni tax reports. Furnish Goodman Water Company with monthly

yl Technology
HC #70 Box 3601 Sahuarita Az 85629 (520) 625-1671

reports including accounts payable, accounts receivable, customer usage, base cost, water charge, sales tax, muni tax, payment receipts, deposit receipts, bank statements and customer totals. Work with water company's administrative staff and support personnel (accountant, attorney, etc) to provide necessary information as needed in a timely manner.

1.8 Maintain billing system for water customers- billing system will include required tax parcel ID and any other information as required by the ACC, Maintain records of information required by ACC, ADEQ, ADWR, CAGRD and other regulatory agencies. Send bills to customers within the time frame as required by ACC. Goodman Water Company will be required to provide the billing cards and any associated special letterhead. If no special letterhead is required, yl Technology will use the attached sample letterhead.

1.9 Respond to customer queries/complaints. Set up new service installations and transfers.

2.0 Prepare annual ADWR, CAGRD, and Unclaimed Property reports, provide information to accountant or attorney in a timely matter, assist with annual ACC report and income tax preparation.

2.1 Verify that any contractor or sub-contractor is a licensed contractor and require all contractors and sub-contractor to provide Goodman Water Company with Certificates of Insurance listing Goodman Water Company as an additional insured.

2. PERFORMANCE OF SERVICES. The manner in which the Services are to be performed and the specific hours to be worked by *yl Technology* shall be determined by *YL Technology*. It is understood that *yl Technology* will be on call 24 hours/day, 365 days a year for Emergency Responses.

3. PAYMENT. In return for their services and responsibilities, *yl Technology* is seeking compensation for those services. The fees for the services are based on the number of service connections and is listed in the attached fee schedule. The fees charged shall be payable monthly, no later than the twentieth day of the month following the period during which the Services were performed. Upon termination of this Agreement, payments under this paragraph shall cease; provided, however, that *yl Technology* shall be entitled to payments for periods or partial periods that occurred prior to the date of termination and for which *yl Technology* has not yet been paid.

4. BONDS. If a bond is required, Goodman Water Company will be responsible for the cost of a company specific Fidelity Bond in the amount the company determines necessary from time to time..

5. SUPPORT SERVICES. Goodman Water Company will not provide the following support services, office space and secretarial services, for the benefit of *yl Technology*. Goodman Water Company will provide yl Technology with an answering service for nights, holidays, and weekends.

yl Technology
HC #70 Box 3601 Sahuarita Az 85629 (520) 625-1671

6. TERM/TERMINATION. This agreement may be terminated by either party upon 30 day written notice to the other party.
7. RELATIONSHIP OF PARTIES. It is understood by the parties that *yl Technology* is an independent contractor with respect to Goodman Water Company and not an employee of Goodman Water Company. Goodman Water Company will not provide fringe benefits, including health insurance benefits, paid vacation, or any other employee benefit, for the benefit of *yl Technology*
8. INJURIES. *yl Technology* acknowledges *yl Technology's* obligation to obtain appropriate insurance coverage for the benefit of *yl Technology* (and *yl Technology's* employee's, if any). *yl Technology* waives any rights to recovery from Goodman Water Company for any injuries that *yl Technology* (and/or *yl Technology's* employee's) may sustain while performing services under this Agreement, that are a result of the negligence of *yl Technology* or *yl Technology's* representatives.
9. ASSIGNMENT. *yl Technology's* obligations under this Agreement may not be assigned or transferred to any other person, firm, or corporation without the prior written consent of Goodman Water Company.
10. RETURN OF RECORDS. Upon termination of this Agreement, *yl Technology* shall deliver all records, notes, data, memorandum, and equipment of any nature that are in *yl Technology's* possession or under *yl Technology's* control and that are Goodman Water Company's property or relate to Goodman Water Company's business. With the exception with records pertaining to water quality testing and ADEQ inspections. yl Technology, will keep copies of water quality and inspection reports for the required 10 years, at which time the records will be destroyed.
11. NOTICES. All notices required or permitted under this Agreement shall be in writing and shall be deemed delivered when delivered in person or deposited in the United States mail, postage prepaid, addressed as follows:

Company:

Goodman Water Company
Jim Shiner
3567 E Sunrise Drive Suite 119
Tucson, Arizona 85718

Manager:

yl Technology, LLC
Karen Hartwell
HC #70 Box 3601
Sahuarita, Arizona 85629

Such address may be changed from time to time by either party by providing written notice to the other in the manner set forth above.

yl Technology
HC #70 Box 3601 Sahuarita Az 85629 (520) 625-1671

12. ENTIRE AGREEMENT. This Agreement contains the entire agreement of the parties and there are not other promises or conditions in any other agreement whether oral or written. This Agreement supersedes any prior written or oral agreements between the parties.
13. AMENDMENT. This Agreement may be modified or amended if the amendment is made in writing and is signed by both parties.
14. SEVERABILITY. If any provision of this Agreement shall be held to be invalid or unenforceable for any reason, the remaining provisions shall continue to be valid and enforceable. If a court finds that any provision of this Agreement is invalid or unenforceable, but that by limiting such provision it would become valid and enforceable, then such provision shall be deemed to be written, construed, and enforces as so limited.
15. WAIVER OF CONTRACTUAL RIGHT. The failure of either party to enforce any provision of this Agreement shall not be construed as a waiver or limitation of that party's right to subsequently enforce and compel strict compliance with every provision of this Agreement.
16. APPLICABLE LAW. This Agreement shall be governed by the laws of the State of Arizona.

Goodman Water Company

By: _____ 4-5-01
James A Shiner, Vice-President Date

yl Technology, LLC.

By: Karen Hartwell 30 March 01
Karen Hartwell, President Date

yl Technology
HC #70 Box 3601 Sahuarita Az 85629 (520) 625-1671

FEE SCHEDULE

1-55	service connections	500.00	per month
56-200	service connections	8.50	per connection
201-575	service connections	7.00	per connection
576 and above	service connections	4000.00	per month

This fee schedule is based on service connections, once the higher service connection fee is reached the fee will change to the next fee. At no time will a fee be charged in addition to the previous fee.

Postage will be included in the above fees at the current rate of $0.20 per billing card and $0.34 per letter.

The above cost would be reduced by $0.50 per connection if electronic meters are installed.

3

Despite better regulatory backing, most of the water utility companies covered in the next few pages have continued to struggle in recent months. Unseasonably wet weather conditions and escalating infrastructure costs remain at the heart of the problem, pressuring margins and limiting bottom-line growth. As a result, these perennial market laggards continue to rank at the bottom of the *Value Line* investment universe for Timeliness. Although we suspect that more-normal weather conditions will eventually resume, the growing need for infrastructure renovations remains a major concern going forward. Higher spending poses a threat to the industry's long-term prospects, especially given the capital constraints that most companies are facing. As a result, none of the issues in this industry hold worthwhile 3- to 5-year appreciation potential at this time. Meanwhile, dividend yields have lost some appeal, as well.

Regulatory Landscape

Regulatory authorities, designed to keep a balance of power between consumers and providers, have long been a nemesis to water utility companies. Rate case decisions have been unfavorable and untimely, sometimes taking as long as two years to complete. However, the tide appears to have turned more recently, particularly in California, where a few of the utilities in this *Survey* generate a fair portion of their revenues. The California Public Utilities Commission, for example, behind the efforts of Governor Schwarzenegger, has been handing down more-favorable and timely decisions. He has replaced members thought to be adversaries of rate relief with more-lenient constituents. The changes provide a healthy backdrop for utility companies that request a step-up in rates each year.

Drowning In Expenses

Although regulators appear to be more business-friendly with case decisions, they are becoming increasingly more stringent with infrastructure demands. Many of the current infrastructures are more than 100 years old, and in need of serious upkeep and even complete renovation in some cases. Meanwhile, the Environmental Protection Agency (EPA) continues to increase its water purification standards, given the geopolitical volatility worldwide and the threat of bio-terrorist actions on U.S. water systems. In all, infrastructure repair costs are expected to climb into the hundreds of millions of dollars over the next two decades. However, these increasing costs will make it very difficult for water utility companies to maintain the earnings momentum that we the expect the improved regulatory landscape to produce this year out to late decade.

INDUSTRY TIMELINESS: 96 (of 97)

Opportunity???

With limited resources to fund rising capital expenditures, many smaller companies in this industry are being forced to shop their businesses, presenting an opportunity for larger suitors with the resources to foot the bill. No company exemplifies this better than *Aqua America*, the largest water utility in our *Survey*. It has made well over 100 acquisitions in the past five years, using the aforementioned weakness of smaller players to improve their operations and increase their presence. It has drastically increased its customer base and clearly improved its longer-term prospects, and therefore holds the best 3- to 5-year appreciation potential of all the stocks in this industry. We expect that the consolidation trend will continue as water standards continue to climb.

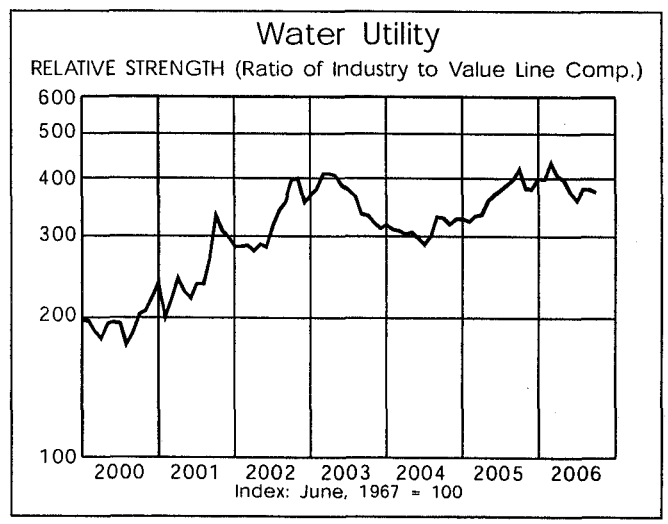
Investment Advice

This is not an industry that most investors will want to emphasize. Not one of the stocks here stand out for Timeliness or 3- to 5-year appreciation potential. Making matters worse, higher interest rates have increased the income-producing appeal of alternative investments, making the yields found in this industry modestly attractive at best. Thus, most will want to avoid this untimely industry for now. However, *California Water* is ranked 2 for Safety. This, along with its historically steady stream of income, may appeal to more-conservative investors. As always, though, we recommend that investors study the individual reports of each company in the next few pages before making any financial commitments.

Andre J. Costanza

Composite Statistics: Water Utility Industry

2002	2003	2004	2005	2006	2007		09-11
925.2	1030.0	1173.6	1256.9	*1350*	*1485*	Revenues ($mill)	*2025*
107.8	112.6	105.7	148.3	*150*	*185*	Net Profit ($mill)	*265*
38.6%	39.7%	39.1%	40.5%	*39.0%*	*39.0%*	Income Tax Rate	*39.0%*
.2%	1.9%	1.0%	1.1%	*1.0%*	*1.0%*	AFUDC % to Net Profit	*1.0%*
54.1%	51.0%	49.1%	50.4%	*50.0%*	*50.0%*	Long-Term Debt Ratio	*50.0%*
45.7%	48.8%	50.7%	49.5%	*50.0%*	*50.0%*	Common Equity Ratio	*50.0%*
2116.4	2449.1	2785.6	3057.5	*3300*	*3600*	Total Capital ($mill)	*4565*
2995.1	3405.6	3836.9	4194.7	*4475*	*4750*	Net Plant ($mill)	*5650*
6.9%	5.9%	6.0%	6.3%	*7.5%*	*8.0%*	Return on Total Cap'l	*9.0%*
11.1%	8.8%	9.0%	9.8%	*9.5%*	*10.5%*	Return on Shr. Equity	*11.5%*
11.1%	8.8%	9.0%	9.8%	*9.5%*	*10.5%*	Return on Com Equity	*11.5%*
4.0%	2.7%	3.1%	3.7%	*4.0%*	*4.5%*	Retained to Com Eq	*5.0%*
64%	70%	66%	62%	*60%*	*55%*	All Div'ds to Net Prof	*55%*
21.6	25.6	25.4	29.4			Avg Ann'l P/E Ratio	*18.0*
1.18	1.46	1.34	1.57	*Bold figures are Value Line estimates*		Relative P/E Ratio	*1.20*
3.0%	2.7%	2.6%	2.1%			Avg Ann'l Div'd Yield	*2.5%*



AQUA AMERICA NYSE-WTR

RECENT PRICE 23.36 | P/E RATIO 31.6 (Trailing: 33.9 Median: 23.0) | RELATIVE P/E RATIO 1.73 | DIV'D YLD 2.0% | VALUE LINE

TIMELINESS 5 Lowered 5/12/06
SAFETY 3 Lowered 8/1/03
TECHNICAL 4 Raised 10/20/06
BETA .85 (1.00 = Market)

2009-11 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	35	(+50%)	13%
Low	25	(+5%)	5%

Insider Decisions

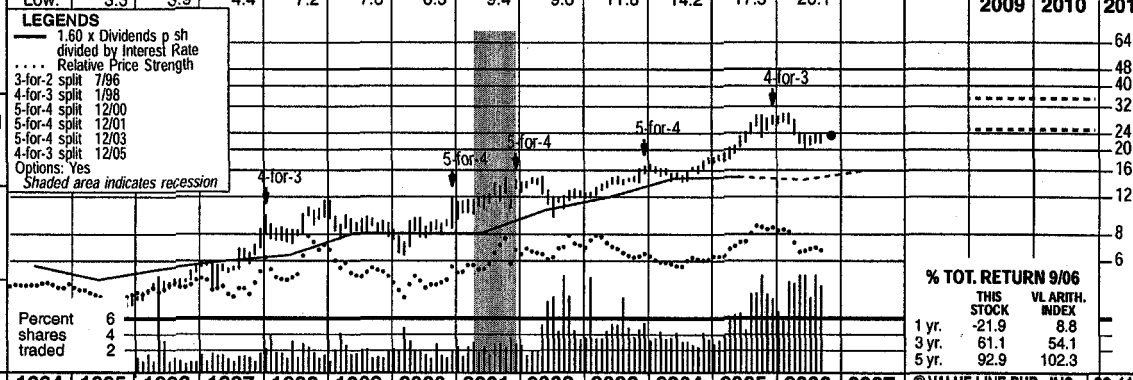
	D	J	F	M	A	M	J	J	A
to Buy	0	0	0	0	0	0	0	0	0
Options	1	2	2	0	1	0	0	1	0
to Sell	1	2	1	0	1	0	0	1	0

Institutional Decisions

	4Q2005	1Q2006	2Q2006
to Buy	112	111	131
to Sell	123	93	105
Hld's(000)	37756	39210	40896

	High:	4.1	5.7	8.5	11.5	11.5	12.0	14.8	15.0	16.8	18.5	29.2	29.8
	Low:	3.3	3.9	4.4	7.2	7.6	6.3	9.4	9.6	11.8	14.2	17.5	20.1

LEGENDS
— 1.60 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
3-for-2 split 7/96
4-for-3 split 1/98
5-for-4 split 12/00
5-for-4 split 12/01
5-for-4 split 12/03
4-for-3 split 12/05
Options: Yes
Shaded area indicates recession



Target Price Range 2009 | 2010 | 2011
64
48
40
32
24
20
16
12
8
6

% TOT. RETURN 9/06

	THIS STOCK	VL ARITH. INDEX
1 yr.	-21.9	8.8
3 yr.	61.1	54.1
5 yr.	92.9	102.3

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	© VALUE LINE PUB., INC.	09-11
2.02	2.14	1.82	1.70	1.82	1.84	1.86	2.02	2.09	2.41	2.46	2.70	2.85	2.97	3.48	3.85	*4.10*	*4.65*	Revenues per sh	*6.55*
.43	.45	.39	.42	.42	.47	.50	.56	.61	.72	.76	.86	.94	.96	1.09	1.21	*1.25*	*1.40*	"Cash Flow" per sh	*1.95*
.24	.25	.24	.24	.26	.29	.30	.34	.40	.42	.47	.51	.54	.57	.64	.71	*.70*	*.85*	Earnings per sh A	*1.25*
.19	.19	.20	.21	.21	.22	.23	.24	.26	.27	.28	.30	.32	.35	.37	.40	*.45*	*.50*	Div'd Decl'd per sh B■	*.72*
.76	.54	.60	.47	.46	.52	.48	.58	.82	.90	1.16	1.09	1.20	1.32	1.54	1.84	*1.90*	*2.15*	Cap'l Spending per sh	*2.60*
2.10	2.07	2.09	2.29	2.41	2.46	2.69	2.84	3.21	3.42	3.85	4.15	4.36	5.34	5.89	6.30	*6.60*	*7.00*	Book Value per sh	*8.90*
40.64	41.42	51.20	59.40	59.77	63.74	65.75	67.47	72.20	106.80	111.82	113.97	113.19	123.45	127.18	128.97	*130.00*	*131.00*	Common Shs Outst'g C	*134.00*
10.2	10.8	12.5	14.4	13.5	12.0	15.6	17.8	22.5	21.2	18.2	23.6	23.6	24.5	25.1	31.8	*Bold figures are Value Line estimates*		Avg Ann'l P/E Ratio	*23.0*
.76	.69	.76	.85	.89	.80	.98	1.03	1.17	1.21	1.18	1.21	1.29	1.40	1.33	1.70			Relative P/E Ratio	*1.55*
7.7%	7.2%	6.8%	5.9%	6.0%	6.2%	4.9%	3.9%	2.9%	3.0%	3.3%	2.5%	2.5%	2.5%	2.3%	1.8%			Avg Ann'l Div'd Yield	*2.4%*
122.5	136.2	151.0	257.3	275.5	307.3	322.0	367.2	442.0	496.8	*535*	*610*	Revenues ($mill)	*875*
19.8	23.2	28.8	45.0	50.7	58.5	62.7	67.3	80.0	91.2	*90*	*110*	Net Profit ($mill)	*170*
41.4%	40.6%	40.5%	38.4%	38.9%	39.3%	38.5%	39.3%	39.4%	38.4%	*39.0%*	*39.0%*	Income Tax Rate	*39.0%*
--	--	--	--	--	--	--	--	2.9%	2.6%	*2.5%*	*2.6%*	AFUDC % to Net Profit	*2.9%*
54.1%	54.4%	52.7%	52.9%	52.0%	52.2%	54.2%	51.4%	50.0%	52.0%	*51.5%*	*51.5%*	Long-Term Debt Ratio	*51.5%*
44.0%	44.8%	46.6%	46.7%	47.8%	47.7%	45.8%	48.6%	50.0%	48.0%	*48.5%*	*48.5%*	Common Equity Ratio	*48.5%*
401.7	427.2	496.6	782.7	901.1	990.4	1076.2	1355.7	1497.3	1690.4	*1770*	*1905*	Total Capital ($mill)	*2450*
502.9	534.5	609.8	1135.4	1251.4	1368.1	1490.8	1824.3	2069.8	2280.0	*2410*	*2545*	Net Plant ($mill)	*3010*
6.8%	7.4%	7.6%	7.6%	7.4%	7.8%	7.6%	6.4%	6.7%	6.9%	*6.5%*	*7.0%*	Return on Total Cap'l	*8.5%*
10.7%	11.9%	12.3%	12.2%	11.7%	12.3%	12.7%	10.2%	10.7%	11.2%	*10.5%*	*12.0%*	Return on Shr. Equity	*14.5%*
11.2%	12.0%	12.4%	12.3%	11.7%	12.4%	12.7%	10.2%	10.7%	11.2%	*10.5%*	*12.0%*	Return on Com Equity	*14.5%*
2.8%	3.6%	4.5%	4.3%	4.7%	5.1%	5.2%	4.2%	4.6%	4.9%	*3.0%*	*5.0%*	Retained to Com Eq	*6.0%*
75%	70%	64%	65%	60%	59%	59%	59%	57%	56%	*66%*	*60%*	All Div'ds to Net Prof	*56%*

CAPITAL STRUCTURE as of 6/30/06
Total Debt $1060.1 mill. **Due in 5 Yrs** $280.0 mill.
LT Debt $907.2 mill. **LT Interest** $50.0 mill.
(LT interest earned: 5.2x; total interest coverage: 2.8x) (51% of Cap'l)

Pension Assets-12/05 $117.7 mill. **Oblig.** $179.7 mill.

Pfd Stock None
Common Stock 131,396,751 shares
as of 7/26/06

MARKET CAP: $3.1 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2004	2005	6/30/06
Cash Assets	13.1	11.9	9.3
Receivables	64.5	62.7	67.9
Inventory (AvgCst)	6.9	7.8	8.5
Other	5.6	7.6	20.2
Current Assets	90.1	90.0	105.9
Accts Payable	23.5	55.5	40.2
Debt Due	135.3	163.1	152.9
Other	58.6	44.7	47.5
Current Liab.	217.4	263.3	240.6
Fix. Chg. Cov.	364%	377%	280%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '03-'05 to '09-'11
Revenues	7.0%	8.0%	*11.0%*
"Cash Flow"	9.5%	9.5%	*10.0%*
Earnings	9.0%	8.5%	*12.0%*
Dividends	6.0%	6.5%	*12.0%*
Book Value	9.5%	11.0%	*7.0%*

Calendar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	80.5	83.4	102.1	101.2	367.2
2004	99.8	106.5	120.3	115.4	442.0
2005	114.0	123.1	136.8	122.9	496.8
2006	117.9	131.7	*145*	*140.4*	*535*
2007	*140*	*150*	*165*	*155*	*610*

Calendar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	.11	.14	.18	.14	.57
2004	.13	.14	.20	.17	.64
2005	.15	.17	.22	.17	.71
2006	.13	.17	*.22*	*.18*	*.70*
2007	*.17*	*.20*	*.25*	*.23*	*.85*

Calendar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	.08	.08	.08	.084	.32
2003	.084	.084	.084	.09	.34
2004	.09	.09	.09	.098	.37
2005	.098	.098	.098	.108	.40
2006	.108	.108	.115		

BUSINESS: Aqua America, Inc. is the holding company for water and wastewater utilities that serve approximately 2.5 million residents in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, Florida, Indiana, and five other states. Divested three of four non-water businesses in '91; telemarketing group in '93; and others. Acquired AquaSource, 7/03; Consumers Water, 4/99; and others. Water supply revenues '05: residential, 59%; commercial, 15%; industrial & other, 26%. Officers and directors own 1.2% of the common stock (4/06 Proxy). Chairman & Chief Executive Officer: Nicholas DeBenedictis. Incorporated: Pennsylvania. Address: 762 West Lancaster Avenue, Bryn Mawr, Pennsylvania 19010. Telephone: 610-525-1400. Internet: www.aquaamerica.com.

Aqua America's third-quarter prospects have worsened due to poor weather conditions. The company reported that an increased number of days with rainfall, in several of Aqua's regions, likely hurt profitability in the third quarter. Management stated that the Midwest (parts of Illinois and Ohio) was hit especially hard; the number of rainy days there increased 33% during the September interim. We have, accordingly, reduced our third-quarter share-earnings estimate by $0.03, and our 2006 estimate by $0.05.

A string of recent acquisitions should help fuel earnings growth in 2007. The water utilities giant recently announced that it has closed five acquisitions so far this year. New York Water Service, one of these purchases, cost the company roughly $50 million and should enhance Aqua's total customer count by 135,000 (5%), or about $0.02 a share in annual earnings contributions. New York has become the company's seventh-largest state as a result of the deal. Another recent purchase, Bregande Excavating, should help expand Aqua's wastewater presence in southeastern Pennsylvania. The highly fragmented nature of the water industry facilitates industry consolidation by big players like Aqua. The company seems to be making good progress on this front in 2006, and should start to see returns by early 2007.

Growing infrastructure needs ought to help boost top-line growth over the coming years. Based on a recent report by the EPA, basic infrastructure needs of public water-supply systems in the United States are estimated to be about $280 billion over the next two decades. This figure is 60% higher than the administration's previous tally. Higher capital spending allows water utilities like Aqua to justify higher rate requests. In the long run, the steady revenue associated with increased rate relief more than offsets near-term capital spending. That said, earnings growth in the short run will likely be pressured by the heavy spending.

These shares are ranked Lowest (5) for year-ahead relative performance. Moreover, total return potential for the years out to 2009–2011 seems limited given the stock's current quotation.

Praneeth Satish *October 27, 2006*

(A) Primary shares outstanding through '96; diluted thereafter. Excl. nonrec. gains (losses): '90, (38¢); '91, (34¢); '92, (38¢); '99, (11¢); '00, 2¢; '01, 2¢; '02, 5¢; '03, 4¢. Excl. gain from disc. operations: '96, 2¢. Next earnings report due early November. (B) Dividends historically paid in early March, June, Sept. & Dec. ■ Div'd. reinvestment plan available (5% discount). (C) In millions, adjusted for stock splits.

Company's Financial Strength	B+
Stock's Price Stability	85
Price Growth Persistence	95
Earnings Predictability	100

AMER. STATES WATER NYSE-AWR

RECENT PRICE 40.54 | P/E RATIO 27.8 (Trailing: 27.4 Median: 17.0) | RELATIVE P/E RATIO 1.52 | DIV'D YLD 2.2% | VALUE LINE

TIMELINESS 3 Raised 3/24/06
SAFETY 3 New 2/4/00
TECHNICAL 3 Lowered 10/20/06
BETA .80 (1.00 = Market)

2009-11 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	45	(+10%)	5%
Low	30	(-25%)	-5%

Insider Decisions

	D	J	F	M	A	M	J	J	A
to Buy	0	0	0	1	0	0	0	0	0
Options	0	0	0	0	0	5	3	0	2
to Sell	0	0	0	0	0	5	3	0	2

Institutional Decisions

	4Q2005	1Q2006	2Q2006
to Buy	48	51	67
to Sell	41	44	44
Hld's(000)	6273	7223	8042

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	© VALUE LINE PUB., INC.	09-11
High:	14.0	16.1	17.1	19.5	26.5	25.3	26.4	29.0	29.0	26.8	34.6	43.8								
Low:	10.5	12.5	13.5	14.1	14.8	16.7	19.0	20.3	21.6	20.8	24.3	30.3								
	9.58	9.15	10.10	9.27	10.43	11.03	11.37	11.44	11.02	12.91	12.17	13.06	13.78	13.98	13.61	14.06	*14.85*	*15.35*	Revenues per sh	*18.05*
	1.49	1.78	1.81	1.67	1.68	1.75	1.75	1.85	2.04	2.26	2.20	2.53	2.54	2.08	2.23	2.64	*3.05*	*3.05*	"Cash Flow" per sh	*3.60*
	.94	1.19	1.15	1.11	.95	1.03	1.13	1.04	1.08	1.19	1.28	1.35	1.34	.78	1.05	1.32	*1.50*	*1.60*	Earnings per sh [A]	*1.90*
	.72	.73	.77	.79	.80	.81	.82	.83	.84	.85	.86	.87	.87	.88	.89	.90	*.91*	*.92*	Div'd Decl'd per sh [B■]	*.96*
	2.53	2.77	2.31	1.90	2.43	2.19	2.40	2.58	3.11	4.30	3.03	3.18	2.68	3.76	5.03	4.24	*4.00*	*4.10*	Cap'l Spending per sh	*4.50*
	7.54	8.39	8.85	9.95	10.07	10.29	11.01	11.24	11.48	11.82	12.74	13.22	14.05	13.97	15.01	15.72	*16.70*	*17.70*	Book Value per sh	*20.00*
	9.43	9.91	9.96	11.71	11.77	11.77	13.33	13.44	13.44	13.44	15.12	15.12	15.18	15.21	16.75	16.80	*17.50*	*18.25*	Common Shs Outst'g [C]	*20.50*
	10.2	8.8	10.6	13.4	12.8	11.6	12.6	14.5	15.5	17.1	15.9	16.7	18.3	31.9	23.2	21.9	*Bold figures are Value Line estimates*		Avg Ann'l P/E Ratio	*19.5*
	.76	.56	.64	.79	.84	.78	.79	.84	.81	.97	1.03	.86	1.00	1.82	1.23	1.17			Relative P/E Ratio	*1.25*
	7.5%	7.0%	6.3%	5.3%	6.6%	6.7%	5.8%	5.5%	5.0%	4.2%	4.2%	3.9%	3.6%	3.5%	3.6%	3.1%			Avg Ann'l Div'd Yield	*2.6%*
							151.5	153.8	148.1	173.4	184.0	197.5	209.2	212.7	228.0	236.2	*260*	*280*	Revenues ($mill)	*370*
							13.5	14.1	14.6	16.1	18.0	20.4	20.3	11.9	16.5	22.5	*26.0*	*30.0*	Net Profit ($mill)	*40.0*
							43.3%	41.1%	40.9%	46.0%	45.7%	43.0%	38.9%	43.5%	37.4%	47.0%	*38.0%*	*40.0%*	Income Tax Rate	*42.0%*
							--	--	--	--	--	--	--	--	--	--	*Nil*	*Nil*	AFUDC % to Net Profit	*Nil*
							41.9%	43.0%	43.6%	51.0%	47.5%	54.9%	52.0%	52.0%	47.7%	50.4%	*51.0%*	*51.0%*	Long-Term Debt Ratio	*52.0%*
							57.3%	56.3%	55.7%	48.4%	51.9%	44.7%	48.0%	48.0%	52.3%	49.6%	*49.0%*	*49.0%*	Common Equity Ratio	*48.0%*
							256.0	268.4	277.1	328.2	371.1	447.6	444.4	442.3	480.4	532.5	*590*	*660*	Total Capital ($mill)	*850*
							357.8	383.6	414.8	449.6	509.1	539.8	563.3	602.3	664.2	713.2	*765*	*810*	Net Plant ($mill)	*950*
							6.9%	6.9%	7.0%	6.6%	6.4%	6.1%	6.5%	4.6%	5.2%	5.4%	*6.0%*	*6.5%*	Return on Total Cap'l	*6.5%*
							9.0%	9.2%	9.4%	10.0%	9.2%	10.1%	9.5%	5.6%	6.6%	8.5%	*9.0%*	*9.5%*	Return on Shr. Equity	*10.0%*
							9.0%	9.2%	9.4%	10.1%	9.3%	10.1%	9.5%	5.6%	6.6%	8.5%	*9.0%*	*9.5%*	Return on Com Equity	*10.0%*
							2.4%	1.8%	2.1%	2.9%	3.0%	3.6%	3.3%	NMF	1.0%	2.8%	*3.5%*	*4.0%*	Retained to Com Eq	*5.0%*
							73%	80%	78%	72%	68%	65%	65%	113%	84%	67%	*61%*	*56%*	All Div'ds to Net Prof	*50%*

% TOT. RETURN 9/06

	THIS STOCK	VL. ARITH. INDEX
1 yr.	17.3	8.8
3 yr.	78.8	54.1
5 yr.	81.8	102.3

CAPITAL STRUCTURE as of 6/30/06
Total Debt $296.8 mill. Due in 5 Yrs $30.0 mill.
LT Debt $268.2 mill. LT Interest $20.0 mill.
(LT interest earned: 4.4x: total interest coverage: 4.1x) (49% of Cap'l)

Leases, Uncapitalized: None
Pension Assets-12/05 $56.6 mill.
Oblig. $83.2 mill.
Pfd Stock None. Pfd Div'd None.

Common Stock 16,981,858 shs.
MARKET CAP: $700 million (Small Cap)

CURRENT POSITION ($MILL.)	2004	2005	6/30/06
Cash Assets	4.3	13.0	9.4
Receivables	14.3	13.3	13.2
Inventory (Avg Cst)	1.5	1.4	1.6
Other	32.9	41.2	44.5
Current Assets	53.0	68.9	68.7
Accts Payable	18.2	19.7	20.9
Debt Due	45.9	27.6	28.6
Other	22.2	30.3	27.2
Current Liab.	86.3	77.6	76.7
Fix. Chg. Cov.	246%	325%	*335%*

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '03-'05 to '09-'11
Revenues	3.0%	3.0%	*4.5%*
"Cash Flow"	3.0%	1.5%	*7.5%*
Earnings	--	-2.5%	*10.5%*
Dividends	1.0%	1.0%	*1.5%*
Book Value	4.0%	4.5%	*5.0%*

Calendar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2003	46.7	51.8	63.7	50.5	212.7
2004	46.7	59.3	69.0	53.0	228.0
2005	49.8	60.5	68.1	57.8	236.2
2006	60.6	62.1	*75.0*	*62.3*	*260*
2007	*63.0*	*70.0*	*80.0*	*67.0*	*280*

Calendar	EARNINGS PER SHARE [A] Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2003	.20	.19	.51	d.12	.78
2004	.08	.30	.52	.15	1.05
2005	.22	.34	.47	.29	1.32
2006	.35	.30	*.53*	*.32*	*1.50*
2007	*.31*	*.39*	*.56*	*.34*	*1.60*

Calendar	QUARTERLY DIVIDENDS PAID [B■] Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	.217	.217	.217	.221	.87
2003	.221	.221	.221	.221	.88
2004	.221	.221	.221	.225	.89
2005	.225	.225	.225	.225	.90
2006	.225	.225	.225		

BUSINESS: American States Water Co. operates as a holding company. Through its principal subsidiary, Golden State Water Company, it supplies water to 75 communities in 10 counties. Service areas include the greater metropolitan areas of Los Angeles and Orange Counties. The company also provides electric utility services to approximately 23,000 customers in the city of Big Bear Lake and in areas of San Bernardino County. Acquired Chaparral City Water of Arizona (10/00); 11,400 customers. Has roughly 515 employees. Off. & dir. own 3.1% of common stock (4/06 Proxy). Chairman: Lloyd Ross. President & CEO: Floyd Wicks. Incorporated: CA. Add.: 630 East Foothill Boulevard, San Dimas, CA 91773. Tel.: 909-394-3600. Web: www.aswater.com.

An improving regulatory environment augurs well for American States Water. Although cool weather conditions have continued to thwart water consumption, more-favorable regulatory rulings have enabled the company to continue increasing revenues at a decent clip for years. Indeed, the top line climbed 3% in the second quarter, despite 6% lower consumption. We suspect that such will remain the case going forward thanks to recent changes to the makeup of the California Public Utilities Commission (CPUC), the Golden State's utilities regulatory body. Historically an antagonist to utility companies looking for rate relief, the board has been redesigned and is, subsequently, more business friendly, handing down more timely and favorable verdicts. American should continue to reap the benefits of such backing for years to come.

Nevertheless, we remain concerned that bottom-line growth will be sluggish looking ahead. Although it appears at first blush that American posted solid results in the second quarter, things get a little cloudier upon further inspection. Indeed, excluding a $0.06 tax benefit that we deem a one-time gain, the company reported a 12% earnings decline in the period, due to higher infrastructure costs. Water systems are eroding rather quickly, and are subject to increasingly more upkeep. In fact, maintenance costs increased by roughly 31% in the most recent period, causing operating profits to decline by 8% on a year-over-year basis. Infrastructure costs will likely continue to increase, as the EPA demands higher water quality and better safety measures. As a result, we have lowered our full-year 2006 earnings estimate by a dime, to $1.50 a share. We are leaving our 2007 share-net figure untouched, however, looking for 6%-7% growth.

Most investors will want to take a pass on this issue. American stock does not stand out as a means of income and offers below-average 3- to 5-year appreciation potential, owing to the infrastructure costs that we anticipate. Making matters worse, the company does not have the means in hand to foot the bill, and will likely have to look to the debt and/or equity market in order to do so.

Andre J. Costanza *October 27, 2006*

(A) Primary earnings. Excludes nonrecurring gains: '91, 73¢; '92, 13¢; '04, 14¢; '05, 25¢; '06, 6¢. Quarterly earnings may not sum due to change in share count. Next earnings report due early November.
(B) Dividends historically paid in early March, June, September, December. ■ Div'd reinvestment plan available.
(C) In millions, adjusted for splits.

Company's Financial Strength	B++
Stock's Price Stability	80
Price Growth Persistence	80
Earnings Predictability	60

CALIFORNIA WATER NYSE-CWT

RECENT PRICE 37.79 | P/E RATIO 26.4 (Trailing: 27.4) (Median: 19.0) | RELATIVE P/E RATIO 1.44 | DIV'D YLD 3.0% | VALUE LINE

TIMELINESS 5 Lowered 8/11/06
SAFETY 2 Lowered 8/11/95
TECHNICAL 4 Lowered 10/13/06
BETA .85 (1.00 = Market)

2009-11 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	40	(+5%)	4%
Low	30	(-20%)	-2%

Insider Decisions

	D	J	F	M	A	M	J	J	A
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	1	1	0	0	0	0	0
to Sell	0	0	2	2	0	1	0	0	0

Institutional Decisions

	4Q2005	1Q2006	2Q2006
to Buy	39	36	42
to Sell	32	35	39
Hld's(000)	4959	5618	5714

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	© VALUE LINE PUB., INC.	09-11
High:	17.6	21.9	29.6	33.8	32.0	31.4	28.6	26.9	31.4	37.9	42.1	45.8								
Low:	14.8	16.3	18.6	20.8	22.6	21.5	22.9	20.5	23.7	26.1	31.2	32.8								
	10.93	11.18	12.29	13.34	12.59	13.17	14.48	15.48	14.76	15.96	16.16	16.26	17.33	16.37	17.18	17.44	*16.35*	*16.90*	Revenues per sh	*20.65*
	1.97	1.98	1.92	2.25	2.02	2.07	2.50	2.92	2.60	2.75	2.52	2.20	2.65	2.51	2.83	3.04	*3.00*	*3.20*	"Cash Flow" per sh	*3.55*
	1.25	1.21	1.09	1.35	1.22	1.17	1.51	1.83	1.45	1.53	1.31	.94	1.25	1.21	1.46	1.47	*1.40*	*1.60*	Earnings per sh [A]	*1.80*
	.87	.90	.93	.96	.99	1.02	1.04	1.06	1.07	1.09	1.10	1.12	1.12	1.12	1.13	1.14	*1.15*	*1.16*	Div'd Decl'd per sh [B] ■	*1.22*
	2.36	3.03	3.09	2.53	2.26	2.17	2.83	2.61	2.74	3.44	2.45	4.09	5.82	4.39	3.73	5.14	*5.25*	*5.30*	Cap'l Spending per sh	*4.50*
	10.04	10.35	10.51	10.90	11.56	11.72	12.22	13.00	13.38	13.43	12.90	12.95	13.12	14.44	15.66	15.98	*18.05*	*18.55*	Book Value per sh [C]	*20.35*
	11.38	11.38	11.38	11.38	12.49	12.54	12.62	12.62	12.62	12.94	15.15	15.18	15.18	16.93	18.37	18.39	*20.50*	*21.00*	Common Shs Outst'g [D]	*23.00*
	10.4	11.2	14.1	13.6	14.1	13.7	11.9	12.6	17.8	17.8	19.6	27.1	19.8	22.1	20.1	24.9	*Bold figures are Value Line estimates*		Avg Ann'l P/E Ratio	*19.0*
	.77	.72	.86	.80	.92	.92	.75	.73	.93	1.01	1.27	1.39	1.08	1.26	1.06	1.30			Relative P/E Ratio	*1.25*
	6.7%	6.6%	6.1%	5.2%	5.8%	6.4%	5.8%	4.6%	4.2%	4.0%	4.3%	4.4%	4.5%	4.2%	3.9%	3.1%			Avg Ann'l Div'd Yield	*3.5%*
							182.8	195.3	186.3	206.4	244.8	246.8	263.2	277.1	315.6	320.7	*335*	*355*	Revenues ($mill)	*475*
							19.1	23.3	18.4	19.9	20.0	14.4	19.1	19.4	26.0	27.2	*27.0*	*34.0*	Net Profit ($mill)	*42.0*
							38.9%	37.4%	36.4%	37.9%	42.3%	39.4%	39.7%	39.9%	39.6%	42.4%	*41.5%*	*41.5%*	Income Tax Rate	*41.5%*
							--	--	--	--	--	--	--	10.3%	--	--	*Nil*	*Nil*	AFUDC % to Net Profit	*Nil*
							47.4%	45.4%	44.2%	46.9%	48.9%	50.3%	55.3%	50.2%	48.6%	48.0%	*44.0%*	*45.5%*	Long-Term Debt Ratio	*47.5%*
							51.4%	53.5%	54.7%	52.0%	50.2%	48.8%	44.0%	49.1%	50.8%	51.4%	*55.5%*	*54.0%*	Common Equity Ratio	*52.0%*
							299.9	306.7	308.6	333.8	388.8	402.7	453.1	498.4	565.9	571.6	*665*	*725*	Total Capital ($mill)	*900*
							443.6	460.4	478.3	515.4	582.0	624.3	697.0	759.5	800.3	856.7	*915*	*980*	Net Plant ($mill)	*1150*
							8.3%	9.4%	7.8%	7.8%	6.8%	5.3%	5.9%	5.6%	6.1%	6.4%	*5.5%*	*6.0%*	Return on Total Cap'l	*5.5%*
							12.1%	13.9%	10.7%	11.2%	10.0%	7.2%	9.4%	7.8%	8.9%	9.1%	*7.5%*	*8.5%*	Return on Shr. Equity	*9.0%*
							12.3%	14.1%	10.8%	11.4%	10.1%	7.2%	9.5%	7.9%	9.0%	9.3%	*7.5%*	*8.5%*	Return on Com Equity	*9.0%*
							3.8%	6.0%	2.8%	3.5%	1.8%	NMF	1.0%	.7%	2.1%	2.1%	*1.0%*	*2.5%*	Retained to Com Eq	*3.0%*
							69%	58%	74%	70%	82%	119%	90%	91%	77%	77%	*87%*	*72%*	All Div'ds to Net Prof	*67%*

LEGENDS
— 1.33 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
2-for-1 split 1/98
Options: No
Shaded area indicates recession

Target Price Range 2009 | 2010 | 2011

% TOT. RETURN 9/06

	THIS STOCK	VL ARITH. INDEX
1 yr.	-7.7	8.8
3 yr.	58.7	54.1
5 yr.	65.6	102.3

CAPITAL STRUCTURE as of 6/30/06
Total Debt $300.8 mill. Due in 5 Yrs $9.0 mill.
LT Debt $273.7 mill. LT Interest $19.5 mill.

(LT interest earned: 3.5x; total int. cov.: 3.2x)

Pension Assets-12/05 $70.2 mill.
Oblig. $103.2 mill.
Pfd Stock $3.5 mill. Pfd Div'd $.15 mill.
139,000 shares, 4.4% cumulative ($25 par).

Common Stock 18,406,963 shs.
as of 7/31/06
MARKET CAP: $700 million (Small Cap)

CURRENT POSITION ($MILL.)	2004	2005	6/30/06
Cash Assets	18.8	9.5	2.2
Other	51.6	42.7	48.5
Current Assets	70.4	52.2	50.7
Accts Payable	19.8	36.1	34.2
Debt Due	1.1	1.1	27.1
Other	36.3	39.6	43.5
Current Liab.	57.2	76.8	104.8
Fix. Chg. Cov.	338%	361%	*375%*

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '03-'05 to '09-'11
Revenues	3.0%	2.0%	*3.0%*
"Cash Flow"	2.5%	-.5%	*4.0%*
Earnings	.5%	-4.0%	*4.5%*
Dividends	1.5%	1.0%	*1.0%*
Book Value	2.5%	1.5%	*5.0%*

Calendar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	51.3	68.0	88.2	69.6	277.1
2004	60.2	88.9	97.1	69.4	315.6
2005	60.3	81.5	101.1	77.8	320.7
2006	65.2	81.1	*107.7*	*81.0*	*335*
2007	*70.0*	*90.0*	*110*	*85.0*	*355*

Calendar	EARNINGS PER SHARE [A] [E] Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	d.05	.30	.53	.41	1.21
2004	.08	.59	.59	.20	1.46
2005	.03	.41	.71	.32	1.47
2006	.04	.31	*.72*	*.33*	*1.40*
2007	*.07*	*.44*	*.74*	*.35*	*1.60*

Calendar	QUARTERLY DIVIDENDS PAID [B] ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	.28	.28	.28	.28	1.12
2003	.281	.281	.281	.281	1.12
2004	.283	.283	.283	.283	1.13
2005	.285	.285	.285	.285	1.14
2006	.2875	.2875	.2875		

BUSINESS: California Water Service Group provides regulated and nonregulated water service to over 2 million people (456,700 customers) in 75 communities in California, Washington, and New Mexico. Main service areas: San Francisco Bay area, Sacramento Valley, Salinas Valley, San Joaquin Valley & parts of Los Angeles. Acquired National Utility Company (5/04); Rio Grande Corp. (11/00). Revenue breakdown, '05: residential, 69%; business, 18%; public authorities, 5%; industrial, 4%; other, 4%. '05 reported deprec. rate: 3.6%. Has about 840 employees. Chairman: Robert W. Foy. President & CEO: Peter C. Nelson. Inc.: Delaware. Address: 1720 North First Street, San Jose, California 95112-4598. Telephone: 408-367-8200. Internet: www.calwater.com.

California Water Service Group should continue to benefit from an improving regulatory landscape . . . Indeed, the California Public Utilities Commission (CPUC), which is in charge of maintaining a balance between consumers and Cal-based utilities, looks to have changed its tune and be more business friendly of late. Such developments paint a favorable backdrop for CWT, which files a general rate case (GRC) each year for eight of its 24 districts. The company is currently awaiting a decision on its 2005 GRC, in which it is seeking roughly $11 million, on a 12.23% return on equity. Although the CPUC may not grant the company the entire amount requested, we think that it will probably sign off on a healthy return, given the recent rulings.

. . . but still struggle to grow its bottom line. Earnings declined by 24% in the second quarter. Although we suspect that the unseasonably wet weather that pressured the top line in the period will eventually let up, we do not share the same optimism about operating costs. Expenses increased 6% for the six months ended June. Many of the company's wells and systems are old and in need of significant renovations. Infrastructure costs will likely continue to rise and pressure profit margins for years to come.

It will have to look to outside financiers to keep things going. With only $2 million in cash on hand at the end of June, CWT does not have the reserves to fund the needed improvements. In fact, it recently issued $20 million in unsecured senior notes and sold two million shares of stock, raising roughly $94 million in total. Although necessary, the initiatives will probably continue to dilute shareholder gains. We suspect similar undertakings will be necessary going forward. In all, we've reduced our full-year earnings estimate by a quarter, to $1.40 and our 2007 figure by $0.15, to $1.60 a share.

We do not recommend these shares at this juncture. They are ranked Lowest (5) for Timeliness and offer minimal 3- to 5-year appreciation potential. Meanwhile, there are better income vehicles on the market at this time. Most investors will want to look elsewhere, given the capital constraints that we expect to continue.

Andre J. Costanza *October 27, 2006*

(A) Basic EPS. Excl. nonrecurring gain (loss): '00, (7¢); '01, 4¢; 02, 8¢. Next earnings report due late January.

(B) Dividends historically paid in mid-Feb., May, Aug., and Nov. ■ Div'd reinvestment plan available.

(C) Incl. deferred charges. In '05: $63.9 mill., $3.47/sh.

(D) In millions, adjusted for split.

(E) May not total due to change in shares.

Company's Financial Strength	B++
Stock's Price Stability	80
Price Growth Persistence	85
Earnings Predictability	70

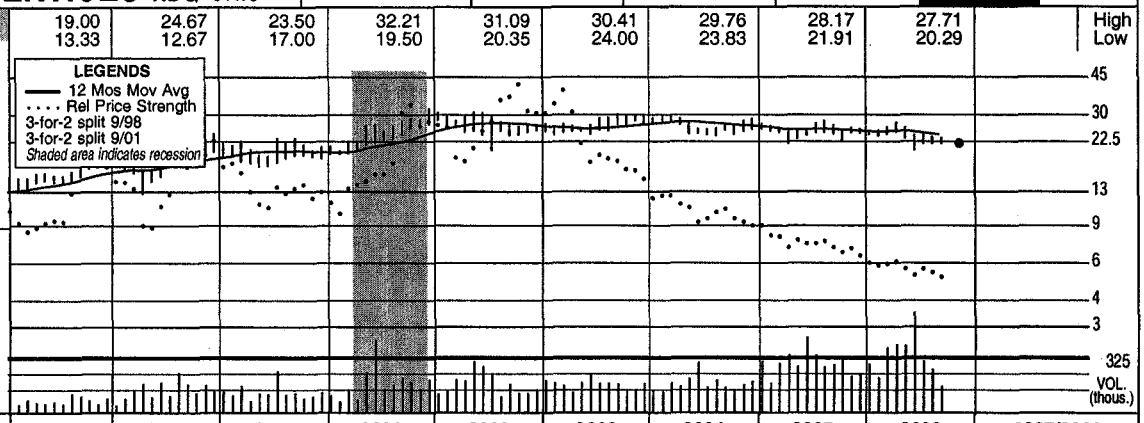
CONN. WATER SERVICES NDQ-CTWS

RECENT PRICE	TRAILING P/E RATIO	RELATIVE P/E RATIO	DIV'D YLD	VALUE LINE
22.10	27.0	1.34	3.9%	

RANKS

PERFORMANCE 3 Average
Technical 3 Average
SAFETY 3 Average
BETA .85 (1.00 = Market)

Financial Strength B+
Price Stability 80
Price Growth Persistence 65
Earnings Predictability 80



© VALUE LINE PUBLISHING, INC.	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007/2008
SALES PER SH	5.58	5.87	5.70	5.93	5.77	5.91	6.04	5.81	--	
"CASH FLOW" PER SH	1.59	1.65	1.73	1.78	1.78	1.89	1.91	1.62	--	
EARNINGS PER SH	1.02	1.03	1.09	1.13	1.12	1.15	1.16	.88	*NA*	*NA/NA*
DIV'DS DECL'D PER SH	.78	.79	.79	.80	.81	.83	.84	.85	--	
CAP'L SPENDING PER SH	1.12	1.42	1.43	1.86	1.98	1.49	1.58	1.96	--	
BOOK VALUE PER SH	8.52	8.61	8.92	9.25	10.06	10.46	10.94	11.52	--	
COMMON SHS OUTST'G (MILL)	6.80	7.26	7.28	7.65	7.94	7.97	8.04	8.17	--	
AVG ANN'L P/E RATIO	15.5	18.2	18.2	21.5	24.3	23.5	22.9	28.6	*NA*	*NA/NA*
RELATIVE P/E RATIO	.81	1.04	1.18	1.10	1.33	1.34	1.21	1.51	--	
AVG ANN'L DIV'D YIELD	4.9%	4.2%	4.0%	3.3%	3.0%	3.0%	3.1%	3.4%	--	
SALES ($MILL)	37.9	42.6	41.5	45.4	45.8	47.1	48.5	47.5	--	*Bold figures are consensus earnings estimates and, using the recent prices, P/E ratios.*
OPERATING MARGIN	46.2%	48.7%	48.8%	56.1%	57.7%	52.1%	51.0%	48.3%	--	
DEPRECIATION ($MILL)	3.9	4.5	4.7	5.0	5.4	5.9	6.0	6.1	--	
NET PROFIT ($MILL)	7.0	7.5	8.0	8.7	8.8	9.2	9.4	7.2	--	
INCOME TAX RATE	34.3%	40.1%	35.7%	36.1%	33.8%	17.9%	22.9%	--	--	
NET PROFIT MARGIN	18.4%	17.6%	19.2%	19.1%	19.2%	19.5%	19.4%	15.1%	--	
WORKING CAP'L ($MILL)	d3.7	d3.8	.3	d3.3	d5.1	d3.9	d.7	13.0	--	
LONG-TERM DEBT ($MILL)	62.5	65.4	64.7	64.0	64.8	64.8	66.4	77.4	--	
SHR. EQUITY ($MILL)	58.7	63.3	65.7	71.6	80.7	84.2	88.7	94.9	--	
RETURN ON TOTAL CAP'L	7.3%	7.4%	7.6%	7.9%	7.4%	7.5%	7.0%	5.0%	--	
RETURN ON SHR. EQUITY	11.9%	11.8%	12.1%	12.1%	10.9%	10.9%	10.6%	7.5%	--	
RETAINED TO COM EQ	2.8%	3.1%	3.2%	3.6%	3.1%	3.2%	3.1%	.3%	--	
ALL DIV'DS TO NET PROF	76%	74%	74%	71%	72%	71%	71%	95%	--	

Note: No analyst estimates available.

ANNUAL RATES

of change (per share)	5 Yrs.	1 Yr.
Sales	0.5%	-4.0%
"Cash Flow"	2.0%	-15.5%
Earnings	0.5%	-24.0%
Dividends	1.0%	1.0%
Book Value	5.0%	5.0%

Fiscal Year	QUARTERLY SALES ($mill.) 1Q	2Q	3Q	4Q	Full Year
12/31/04	10.9	12.0	13.9	11.7	48.5
12/31/05	10.9	11.0	14.1	11.5	47.5
12/31/06	10.5	11.4			
12/31/07					

Fiscal Year	EARNINGS PER SHARE 1Q	2Q	3Q	4Q	Full Year
12/31/03	.26	.15	.48	.26	1.15
12/31/04	.24	.26	.47	.19	1.16
12/31/05	.24	.15	.41	.08	.88
12/31/06	.21	.12			
12/31/07					

Cal-endar	QUARTERLY DIVIDENDS PAID 1Q	2Q	3Q	4Q	Full Year
2003	.205	.205	.208	.208	.83
2004	.208	.208	.21	.21	.84
2005	.21	.21	.213	.213	.85
2006	.213	.213	.215		

INSTITUTIONAL DECISIONS

	4Q'05	1Q'06	2Q'06
to Buy	13	17	14
to Sell	17	20	18
Hld's(000)	1381	1430	1462

ASSETS ($mill.)	2004	2005	6/30/06
Cash Assets	.7	4.4	6.2
Receivables	9.8	5.9	9.8
Inventory (Avg cost)	.9	.9	1.0
Other	3.9	14.9	1.7
Current Assets	15.3	26.1	18.7
Property, Plant & Equip, at cost	344.5	345.0	--
Accum Depreciation	98.4	97.3	--
Net Property	246.1	247.7	256.7
Other	29.5	32.2	30.1
Total Assets	290.9	306.0	305.5
LIABILITIES ($mill.)			
Accts Payable	5.5	4.8	3.9
Debt Due	6.0	7.1	4.8
Other	4.4	1.3	.6
Current Liab	15.9	13.2	9.3

LONG-TERM DEBT AND EQUITY as of 6/30/06

Total Debt $82.1 mill. **Due in 5 Yrs.** NA
LT Debt $77.4 mill.
Including Cap. Leases NA (45% of Cap'l)
Leases, Uncapitalized Annual rentals NA

Pension Liability None in '05 vs. None in '04

Pfd Stock $.8 mill. **Pfd Div'd Paid** NMF

Common Stock 8,238,779 shares (55% of Cap'l)

INDUSTRY: Water Utility

BUSINESS: Connecticut Water Services, Inc. primarily operates as a water utility in New England. Its regulated water companies include The Connecticut Water Company; The Gallup Water Service, Incorporated; The Crystal Water Company of Danielson; and The Unionville Water Company. These companies supply water in Connecticut and Massachusetts. The company also owns unregulated companies, such as Chester Realty, Inc., a real estate company; New England Water Utility Services, Inc. which offers contract water and sewer operations; Connecticut Water Emergency Services, Inc., a provider of drinking and pool water; Crystal Water Utilities Corporation, a holding company that owns The Crystal Water Company of Danielson and three rental properties; BARLACO Inc., a real estate company; and Barnstable Holding Company, a holding company that owns BWC and BARLACO. In October, The Connecticut Water Company acquired the South Coventry Water Supply Company for approximately $240,000. Has 191 employees. Chairman: Marshall T. Chiaraluce. Inc.: CT. Address: 93 West Main Street, Clinton, CT 06413. Tel.: (860) 669-8636. Internet: http://www.ctwater.com. *A.O.*

October 27, 2006

TOTAL SHAREHOLDER RETURN

Dividends plus appreciation as of 9/30/2006

3 Mos.	6 Mos.	1 Yr.	3 Yrs.	5 Yrs.
-4.85%	-14.25%	-7.51%	-9.34%	-6.24%

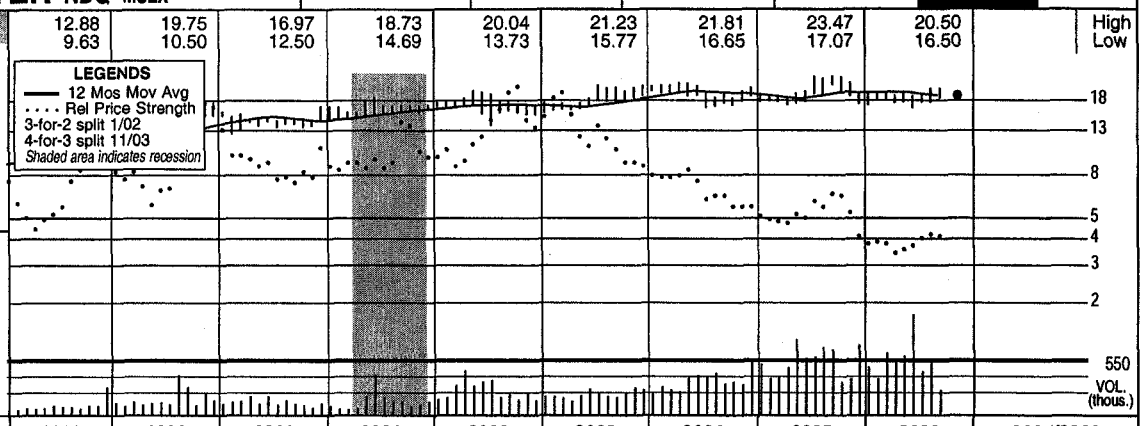
MIDDLESEX WATER NDQ-MSEX

RECENT PRICE	TRAILING P/E RATIO	RELATIVE P/E RATIO	DIV'D YLD	VALUE LINE
19.01	22.9	1.13	3.6%	

RANKS

PERFORMANCE	2	Above Average
Technical	2	Above Average
SAFETY	3	Average
BETA .80	(1.00 = Market)	

Financial Strength	B+
Price Stability	85
Price Growth Persistence	60
Earnings Predictability	70



© VALUE LINE PUBLISHING, INC.	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007/2008
SALES PER SH	4.39	5.35	5.39	5.87	5.98	6.12	6.25	6.44	--	
"CASH FLOW" PER SH	1.02	1.19	.99	1.18	1.20	1.15	1.28	1.33	--	
EARNINGS PER SH	.71	.76	.51	.66	.73	.61	.73	.71	*.83* [A,B]	*.84* [C]*/NA*
DIV'DS DECL'D PER SH	.58	.60	.61	.62	.63	.65	.66	.67	--	
CAP'L SPENDING PER SH	2.68	2.33	1.32	1.25	1.59	1.87	2.54	2.18	--	
BOOK VALUE PER SH	6.80	6.95	6.98	7.11	7.39	7.60	8.38	8.60	--	
COMMON SHS OUTST'G (MILL)	9.82	10.00	10.11	10.17	10.36	10.48	11.36	11.58	--	
AVG ANN'L P/E RATIO	15.2	17.6	28.7	24.6	23.5	30.0	26.4	27.4	*22.9*	*22.6/NA*
RELATIVE P/E RATIO	.79	1.00	1.87	1.26	1.28	1.71	1.39	1.45	--	
AVG ANN'L DIV'D YIELD	5.4%	4.4%	4.2%	3.8%	3.7%	3.5%	3.4%	3.5%	--	
SALES ($MILL)	43.1	53.5	54.5	59.6	61.9	64.1	71.0	74.6	--	
OPERATING MARGIN	37.0%	33.9%	32.2%	47.2%	47.1%	44.0%	44.4%	44.4%	--	
DEPRECIATION ($MILL)	3.8	4.3	4.9	5.3	5.0	5.6	6.4	7.2	--	
NET PROFIT ($MILL)	6.5	7.9	5.3	7.0	7.8	6.6	8.4	8.5	--	
INCOME TAX RATE	31.5%	28.8%	33.1%	34.8%	33.3%	32.8%	31.1%	27.6%	--	
NET PROFIT MARGIN	15.1%	14.7%	9.7%	11.7%	12.5%	10.3%	11.9%	11.4%	--	
WORKING CAP'L ($MILL)	14.6	6.8	d2.7	d.9	d9.3	d13.3	d11.8	d4.5	--	
LONG-TERM DEBT ($MILL)	78.0	82.3	81.1	88.1	87.5	97.4	115.3	128.2	--	
SHR. EQUITY ($MILL)	71.7	74.6	74.7	76.4	80.6	83.7	99.2	103.6	--	
RETURN ON TOTAL CAP'L	5.7%	6.4%	4.9%	5.6%	6.0%	5.0%	5.1%	5.0%	--	
RETURN ON SHR. EQUITY	9.1%	10.6%	7.1%	9.1%	9.6%	7.9%	8.5%	8.2%	--	
RETAINED TO COM EQ	1.8%	2.5%	NMF	.5%	1.3%	NMF	.9%	.5%	--	
ALL DIV'DS TO NET PROF	81%	78%	121%	94%	87%	106%	90%	94%	--	

Bold figures are consensus earnings estimates and, using the recent prices, P/E ratios.

[A] *No. of analysts changing earn. est. in last 14 days: 0 up, 0 down, consensus 5-year earnings growth not available.* [B] *Based upon one analyst's estimate.* [C] *Based upon one analyst's estimate.*

ANNUAL RATES

of change (per share)	5 Yrs.	1 Yr.
Sales	4.5%	3.0%
"Cash Flow"	3.5%	3.5%
Earnings	1.0%	-2.5%
Dividends	2.0%	1.5%
Book Value	3.5%	2.5%

Fiscal Year	QUARTERLY SALES ($mill.) 1Q	2Q	3Q	4Q	Full Year
12/31/04	15.9	17.8	19.8	17.5	71.0
12/31/05	16.7	18.4	20.8	18.7	74.6
12/31/06	18.2	21.0			
12/31/07					

Fiscal Year	EARNINGS PER SHARE 1Q	2Q	3Q	4Q	Full Year
12/31/03	.11	.17	.22	.11	.61
12/31/04	.09	.16	.29	.19	.73
12/31/05	.12	.16	.26	.17	.71
12/31/06	.15	.25	*.26*	*.17*	
12/31/07	*.15*				

Cal-endar	QUARTERLY DIVIDENDS PAID 1Q	2Q	3Q	4Q	Full Year
2003	.161	.161	.161	.165	.65
2004	.165	.165	.165	.168	.66
2005	.168	.168	.168	.17	.67
2006	.17	.17	.17		

INSTITUTIONAL DECISIONS

	4Q'05	1Q'06	2Q'06
to Buy	11	18	15
to Sell	21	18	20
Hld's(000)	1707	1789	1771

ASSETS ($mill.)	2004	2005	6/30/06
Cash Assets	4.0	3.0	2.3
Receivables	9.9	11.8	12.6
Inventory (Avg cost)	1.2	1.3	1.5
Other	.9	.9	1.7
Current Assets	16.0	17.0	18.1
Property, Plant & Equip, at cost	314.9	343.0	--
Accum Depreciation	52.0	55.0	--
Net Property	262.9	288.0	300.0
Other	26.7	19.4	19.3
Total Assets	305.6	324.4	337.4
LIABILITIES ($mill.)			
Accts Payable	6.0	6.0	5.0
Debt Due	12.1	5.9	14.7
Other	9.7	9.6	10.8
Current Liab	27.8	21.5	30.5

LONG-TERM DEBT AND EQUITY as of 6/30/06

Total Debt $142.2 mill. **Due in 5 Yrs.** NA
LT Debt $127.5 mill.
Including Cap. Leases NA (55% of Cap'l)
Leases, Uncapitalized Annual rentals NA

Pension Liability $6.7 mill. in '05 vs. $5.5 mill. in '04

Pfd Stock $4.0 mill. **Pfd Div'd Paid** $.2 mill. (2% of Cap'l)

Common Stock 11,619,662 shares (43% of Cap'l)

INDUSTRY: Water Utility

BUSINESS: Middlesex Water Company, through its subsidiaries, engages in the ownership and operation of regulated water utility systems in central and southern New Jersey, and in Delaware, as well as a regulated wastewater utility in southern New Jersey. Its New Jersey water utility system (the Middlesex System) provides water services to retail customers in central New Jersey. The Middlesex System also provides water service under contract to municipalities in central New Jersey. The company operates the water supply system and wastewater system for the city of Perth Amboy in New Jersey in partnership with its subsidiary, Utility Service Affiliates (Perth Amboy), Inc. Its other New Jersey subsidiaries provide water and wastewater services to residents in Southampton Township. Has 231 employees. Chairman: J. Richard Tompkins. Inc.: NJ. Address: 1500 Ronson Road, P.O. Box 1500, Iselin, NJ 08830. Tel.: (732) 634-1500. Internet: http://www.middlesexwater.com.

A.Z.

October 27, 2006

TOTAL SHAREHOLDER RETURN

Dividends plus appreciation as of 9/30/2006

3 Mos.	6 Mos.	1 Yr.	3 Yrs.	5 Yrs.
2.52%	3.35%	-11.26%	15.61%	38.49%

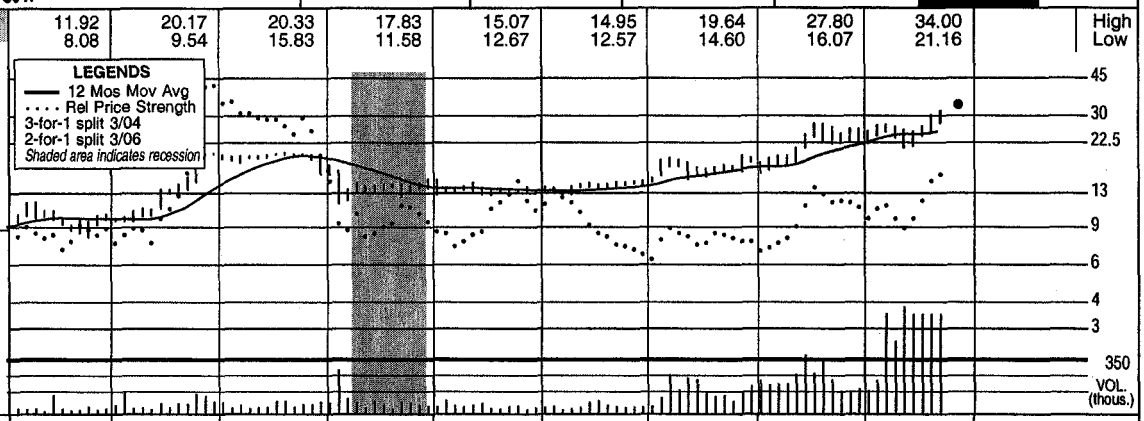
SJW CORP. NYSE-SJW

RECENT PRICE	TRAILING P/E RATIO	RELATIVE P/E RATIO	DIV'D YLD	VALUE LINE
33.84	27.3	1.35	1.7%	

RANKS

PERFORMANCE 3 Average
Technical 3 Average
SAFETY 2 Above Average
BETA .75 (1.00 = Market)

Financial Strength B++
Price Stability 85
Price Growth Persistence 65
Earnings Predictability 75



© VALUE LINE PUBLISHING, INC.	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007/2008
SALES PER SH	5.58	6.40	6.74	7.45	7.97	8.20	9.14	9.86	--	
"CASH FLOW" PER SH	1.26	1.43	1.23	1.49	1.55	1.75	1.89	2.21	--	
EARNINGS PER SH	.76	.87	.58	.77	.78	.91	.87	1.12	*1.35*[A,B]	*1.49*[C]/NA
DIV'DS DECL'D PER SH	.39	.40	.41	.43	.46	.49	.51	.53	--	
CAP'L SPENDING PER SH	1.81	1.77	1.89	2.63	2.06	3.41	2.31	2.83	--	
BOOK VALUE PER SH	7.53	7.88	7.90	8.17	8.40	9.11	10.11	10.72	--	
COMMON SHS OUTST'G (MILL)	19.01	18.27	18.27	18.27	18.27	18.27	18.27	18.27	--	
AVG ANN'L P/E RATIO	13.1	15.5	33.1	18.5	17.3	15.4	19.6	19.7	*25.1*	*22.7/NA*
RELATIVE P/E RATIO	.68	.88	2.15	.95	.94	.88	1.04	1.04	--	
AVG ANN'L DIV'D YIELD	3.9%	3.0%	2.1%	3.0%	3.4%	3.5%	3.0%	2.4%	--	
SALES ($MILL)	106.0	117.0	123.2	136.1	145.7	149.7	166.9	180.1	--	
OPERATING MARGIN	36.0%	33.2%	30.2%	64.4%	63.7%	56.0%	56.4%	55.9%	--	
DEPRECIATION ($MILL)	9.6	10.2	11.9	13.2	14.0	15.2	18.5	19.7	--	
NET PROFIT ($MILL)	14.4	15.9	10.7	14.0	14.2	16.7	16.0	20.7	--	
INCOME TAX RATE	40.2%	35.9%	41.0%	34.5%	40.4%	36.2%	42.1%	41.6%	--	
NET PROFIT MARGIN	13.6%	13.6%	8.7%	10.3%	9.8%	11.2%	9.6%	11.5%	--	
WORKING CAP'L ($MILL)	9.4	d3.0	d11.4	d3.8	d4.9	12.0	13.0	10.8	--	
LONG-TERM DEBT ($MILL)	90.0	90.0	90.0	110.0	110.0	139.6	143.6	145.3	--	
SHR. EQUITY ($MILL)	143.2	143.9	144.3	149.4	153.5	166.4	184.7	195.9	--	
RETURN ON TOTAL CAP'L	7.4%	8.2%	5.9%	6.7%	6.9%	6.9%	6.5%	7.6%	--	
RETURN ON SHR. EQUITY	10.1%	11.0%	7.4%	9.4%	9.3%	10.0%	8.7%	10.6%	--	
RETAINED TO COM EQ	4.9%	5.9%	2.2%	4.1%	3.8%	4.7%	3.6%	5.6%	--	
ALL DIV'DS TO NET PROF	52%	46%	70%	56%	59%	53%	58%	47%	--	

Bold figures are consensus earnings estimates and, using the recent prices, P/E ratios.

[A] *No. of analysts changing earn. est. in last 14 days: 0 up, 0 down, consensus 5-year earnings growth not available.* [B] *Based upon one analyst's estimate.* [C] *Based upon one analyst's estimate.*

ANNUAL RATES

of change (per share)	5 Yrs.	1 Yr.
Sales	7.5%	8.0%
"Cash Flow"	8.5%	17.0%
Earnings	5.5%	29.0%
Dividends	5.0%	4.0%
Book Value	5.0%	6.0%

Fiscal Year	QUARTERLY SALES ($mill.) 1Q	2Q	3Q	4Q	Full Year
12/31/04	31.1	45.6	52.3	37.9	166.9
12/31/05	33.3	44.8	58.5	43.5	180.1
12/31/06	33.7	47.9			
12/31/07					

Fiscal Year	EARNINGS PER SHARE 1Q	2Q	3Q	4Q	Full Year
12/31/03	.18	.24	.33	.16	.91
12/31/04	.09	.27	.30	.21	.87
12/31/05	.15	.31	.53	.13	1.12
12/31/06	.23	.35	*.50*	*.28*	
12/31/07	*.22*				

Cal-endar	QUARTERLY DIVIDENDS PAID 1Q	2Q	3Q	4Q	Full Year
2003	.122	.122	.122	.122	.49
2004	.128	.128	.128	.128	.51
2005	.134	.134	.134	.134	.54
2006	.141	.141	.141		

INSTITUTIONAL DECISIONS

	4Q'05	1Q'06	2Q'06
to Buy	21	24	31
to Sell	21	24	27
Hld's(000)	6498	6597	6941

ASSETS ($mill.)	2004	2005	6/30/06
Cash Assets	10.9	9.4	2.6
Receivables	14.6	18.4	25.8
Inventory	.6	.6	.7
Other	2.3	3.3	4.8
Current Assets	28.4	31.7	33.9
Property, Plant & Equip, at cost	646.9	695.0	--
Accum Depreciation	190.1	210.2	--
Net Property	456.8	484.8	533.9
Other	67.0	71.2	63.2
Total Assets	552.2	587.7	631.0
LIABILITIES ($mill.)			
Accts Payable	.9	5.1	3.4
Debt Due	.3	.3	23.4
Other	14.2	15.5	23.4
Current Liab	15.4	20.9	50.2

LONG-TERM DEBT AND EQUITY as of 6/30/06

Total Debt $172.3 mill. **Due in 5 Yrs.** NA
LT Debt $148.9 mill.
Including Cap. Leases NA (43% of Cap'l)
Leases, Uncapitalized Annual rentals NA

Pension Liability $13.2 mill. in '05 vs. $9.4 mill. in '04

Pfd Stock None **Pfd Div'd Paid** None

Common Stock 18,271,698 shares (57% of Cap'l)

INDUSTRY: Water Utility

BUSINESS: SJW Corp. operates as the holding company for San Jose Water Company (SJWC), SJW Land Company, Crystal Choice Water Service LLC, and SJWTX Water, Inc. SJWC produces, purchases, stores, purifies, distributes, and sells water. It provides water service to customers in Cupertino, San Jose, Campbell, Monte Sereno, Saratoga, the Town of Los Gatos, and in the county of Santa Clara, California. SJWC also provides nonregulated water related services, including water system operations, billings, and cash remittance services. SJW Land owns and operates parking facilities in San Jose, California, as well as owns commercial buildings and other undeveloped land primarily in the San Jose Metropolitan area, some properties in the states of Florida, Texas, and Connecticut, and a 70% limited partnership interest in 444 West Santa Clara Street, L.P. Crystal Choice sells and rents water conditioning and purification equipment. Has 311 employees. Chairman: Drew Gibson. Inc.: CA. Address: 374 West Santa Clara Street, San Jose, CA 95113. Tel.: (408) 279-7800. Internet: http://www.sjwater.com.

A.O.

October 27, 2006

TOTAL SHAREHOLDER RETURN

Dividends plus appreciation as of 9/30/2006

3 Mos.	6 Mos.	1 Yr.	3 Yrs.	5 Yrs.
18.15%	12.61%	26.62%	130.31%	152.39%

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Goodman Water Company
Test Year Ended September 31, 2005
Computation of Increase in Gross Revenue
Requirements As Adjusted

Exhibit
Rejoinder Schedule A-1
Page 1
Witness: Bourassa

Line No.			
1	Fair Value Rate Base	$	1,292,051
2			
3	Adjusted Operating Income		(75,050)
4			
5	Current Rate of Return		-5.81%
6			
7	Required Operating Income	$	135,665
8			
9	Required Rate of Return on Fair Value Rate Base		10.50%
10			
11	Operating Income Deficiency	$	210,715
12			
13	Gross Revenue Conversion Factor		1.5446
14			
15	Increase in Gross Revenue		
16	Requirement	$	325,463
17			
18	% Increase		152.55%

19	20 Customer Classification (Residential Commercial, Irrigation)	21 Present Rates	22 Proposed Rates	Dollar Increase	Percent Increase
23					
24	5/8 x 3/4 Inch Residential	$ 124,765	$ 344,047	$ 219,282	175.76%
25	3/4 Inch Residential	-	-	-	0.00%
26	1 Inch Residential	10,839	27,423	16,584	153.00%
27	2 Inch Residential	13,982	43,113	29,131	208.35%
28	Construction Water	13,412	21,797	8,386	
29				-	0.00%
30	Revenue Annualization	32,746	84,425	51,678	157.81%
31	**Subtotal**	$ 195,744	$ 520,805	$ 325,061	166.06%
32					
33	Other Water Revenues	17,940	17,940	-	0.00%
34				-	0.00%
35	**Total of Water Revenues (a)**	$ 213,684	$ 538,745	$ 325,061	152.12%
36					
37					
38					
39					
40					
41					
42	SUPPORTING SCHEDULES:				
43	Rejoinder B-1				
44	Rejoinder C-1				
45	Rejoinder C-3				
46	Rejoinder H-1				
47					

Goodman Water Company
Test Year Ended September 31, 2005
Summary of Rate Base

Exhibit
Rejoinder Schedule B-1
Page 1
Witness: Bourassa

Line No.		Original Cost Rate base	Fair Value Rate Base
1			
2	Gross Utility Plant in Service	$ 2,365,811	$ 2,365,811
3	Less: Accumulated Depreciation	108,511	108,511
4			
5	Net Utility Plant in Service	$ 2,257,300	$ 2,257,300
6			
7	Less:		
8	Advances in Aid of		
9	Construction	971,695	971,695
10	Contributions in Aid of		
11	Construction	-	-
12	Accumulated Amortization of CIAC	-	-
13			
14	Customer Meter Deposits	14,864	14,864
15	Deferred Income Taxes & Credits	-	-
16	Deferred Assets	-	-
17			
18			
19	Plus:		
20	Unamortized Finance		
21	Charges	-	-
22	Prepaids	-	-
23	Deferred Assets	21,310	21,310
24	Allowance for Working Capital	-	-
25			
26			
27	Total Rate Base	$ 1,292,051	$ 1,292,051
28			
29			
30			
31	SUPPORTING SCHEDULES:		
32	Rejoinder B-2		
33	Rejoinder B-5		
34			
35			
36			

Goodman Water Company
Test Year Ended September 31, 2005
Original Cost Rate Base Proforma Adjustments

Exhibit
Rejoinder Schedule B-2
Page 1
Witness: Bourassa

Line No.		Adjusted at End of Test Year	Adjustments	Rejoinder Adjusted at end of Test Year
1	Gross Utility			
2	Plant in Service	$ 2,348,486	17,325	$ 2,365,811
3				
4	**Less:**			
5	Accumulated			
6	Depreciation	108,248	263	108,511
7				
8				
9	Net Utility Plant			
10	in Service	$ 2,240,239	$ 17,062	$ 2,257,300
11				
12	**Less:**			
13	Advances in Aid of			
14	Construction	971,695	-	971,695
15				
16	Contributions in Aid of			
17	Construction (CIAC)	-	-	-
18				
19				
20	Accum. Amortization of CIAC	-	-	-
21				
22				
23	Customer Meter Deposits	14,864	0	14,864
24	Deferred Income Taxes	-	-	-
25	Investment Tax Credits	-	-	-
26				
27				
28	**Plus:**			
29	Unamortized Finance	0		
30	Charges	-	0	-
31	Prepaids	-	-	-
32	Allowance for Working Capital	22,003	(694)	21,310
33		-		-
34				
35	Total	$ 1,275,683	$ 16,368	$ 1,292,051
36				
37				
38				
39				
40				
41	SUPPORTING SCHEDULES:			
42	Rejoinder B-2, pages 2			
43				
44				
45				
46				
47				
48				

Goodman Water Company
Test Year Ended September 31, 2005
Original Cost Rate Base Proforma Adjustments

Exhibit
Rejoinder Schedule B-2
Page 2
Witness: Bourassa

Line No.		ADJUSTMENT LABEL->> Adjusted at End of Test Year	1 Rebuttal Expensed Plant	2 Rebuttal Accumulated Depreciation	3 Rebuttal Working Capital	4 Intentionally Left Blank	5 Intentionally Left Blank	Rejoinder Adjusted at end of Test Year
1	Gross Utility							
2	Plant in Service	$ 2,348,486	17,325					$ 2,365,811
3								
4	**Less:**							
5	Accumulated							
6	Depreciation	108,248		263				108,511
7								
8								
9	Net Utility Plant							
10	in Service	$ 2,240,239	$ 17,325	$ (263)	$ -	$ -	$ -	$ 2,257,300
11								
12	**Less:**							
13	Advances in Aid of							
14	Construction	971,695						971,695
15								
16	Contributions in Aid of							
17	Construction (CIAC)	-						-
18								
19								
20	Accum. Amortization of CIAC	-						-
21								
22								
23	Customer Meter Deposits	14,864						14,864
24	Deferred Income Taxes	-						-
25	Investment Tax Credits	-						-
26								
27								
28	**Plus:**							
29	Unamortized Finance	-						
30	Charges	-						-
31								-
32	Allowance for Working Capital	22,003			(694)			21,310
33								
34								
35	Total	$ 1,275,683	$ 17,325	$ (263)	$ (694)	$ -	$ -	$ 1,292,051
36								
37								
38								
39								
40								
41	SUPPORTING SCHEDULES:							
42	Rebuttal B-2, pages 3-7							
43								

Gold Canyon Sewer Company
Test Year Ended October 31, 2005
Original Cost Rate Base Proforma Adjustments

Exhibit
Rejoinder Schedule B-2
Page 1
Witness: Bourassa

Line No.		Adjusted at End of Test Year	Adjustments	Rejoinder Adjusted at end of Test Year
1	Gross Utility			
2	Plant in Service	$ 21,094,247	-	$ 21,094,247
3				
4	**Less:**			
5	Accumulated			
6	Depreciation	1,318,581	(5,397)	1,313,184
7				
8				
9	Net Utility Plant			
10	in Service	$ 19,775,666	$ 5,397	$ 19,781,063
11				
12	**Less:**			
13	Advances in Aid of			
14	Construction	2,064,125	-	2,064,125
15				
16	Contributions in Aid of			
17	Construction (CIAC)	1,827,557	-	1,827,557
18				
19				
20	Accum. Amortization of CIAC	(145,364)	6,576	(138,788)
21				
22				
23	Customer Meter Deposits	30,769	0	30,769
24	Deferred Income Taxes	254,681	-	254,681
25	Investment Tax Credits	-	-	-
26				
27				
28	**Plus:**			
29	Unamortized Finance	0		
30	Charges	-	0	-
31	Prepaids	-	-	-
32	Allowance for Working Capital	(0)	-	(0)
33		-		-
34				
35	Total	$ 15,743,898	$ (1,179)	$ 15,742,719
36				
37				
38				
39				
40				
41	SUPPORTING SCHEDULES:			
42	Rejoinder B-2, pages 2			
43				
44				
45				
46				
47				
48				

Goodman Water Company
Test Year Ended September 31, 2005
Computation of Working Capital

Exhibit
Rejoinder Schedule B-5
Page 1
Witness: Bourassa

Line No.			
1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	$	21,310
3	Pumping Power (1/24 of Pumping Power)		-
4	Purchased Water Treatment (1/24 of Purchased Water)		-
5			
6			
7			
8			
9	Total Working Capital Allowance	$	21,310
10	Working Capital per Direct Filing	$	22,003
11			
12	Increase (Decrease) in Working Capital	$	(694)
13			
14			
15	SUPPORTING SCHEDULES:	RECAP SCHEDULES:	
16		Rejoinder B-1	
17			

Goodman Water Company
Test Year Ended September 31, 2005
Income Statement

Exhibit
Rejoinder Schedule C-1
Page 1
Witness: Bourassa

Line No.		Adjusted Book Results	Adjustments	Rejoinder Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	**Revenues**					
2	Metered Water Revenues	$ 195,408	$ -	$ 195,408	$ 325,463	$ 520,872
3	Unmetered Water Revenues	-	-	-		-
4	Other Water Revenues	17,940	-	17,940		17,940
5		$ 213,348	$ -	$ 213,348	$ 325,463	$ 538,812
6	**Operating Expenses**					
7	Salaries and Wages	$ 32,000	-	$ 32,000		$ 32,000
8	Purchased Water	-	-	-		-
9	Purchased Power	10,086	-	10,086		10,086
10	Chemicals	-	-	-		-
11	Repairs and Maintenance	9,868	-	9,868		9,868
12	Office Supplies and Expense	778	-	778		778
13	Outside Services	78,106	(174)	77,932		77,932
14	Water Testing	3,639	-	3,639		3,639
15	Rents	-	-	-		-
16	Transportation Expenses	-	-	-		-
17	Insurance - General Liability	18,253	-	18,253		18,253
18	Insurance - Health and Life	-	-	-		-
19	Regulatory Commission Expense - Ra	25,000	(1,875)	23,125		23,125
20	Miscellaneous Expense	2,386	(140)	2,246		2,246
21	Depreciation Expense	129,418	-	129,418		129,418
22	Taxes Other Than Income	2,635	-	2,635		2,635
23	Property Taxes	19,270	17	19,287		19,287
24	Income Tax	(41,497)	627	(40,870)	114,748	73,879
25						
26	**Total Operating Expenses**	$ 289,943	$ (1,545)	$ 288,398	$ 114,748	$ 403,147
27	**Operating Income**	$ (76,594)	$ 1,545	$ (75,050)	$ 210,715	$ 135,665
28	**Other Income (Expense)**					
29	Interest Income	-		-		-
30	Other income	-		-		-
31	Interest Expense	-		-		-
32	Other Expense	-		-		-
33						
34	**Total Other Income (Expense)**	$ -	$ -	$ -	$ -	$ -
35	**Net Profit (Loss)**	$ (76,594)	$ 1,545	$ (75,050)	$ 210,715	$ 135,665
36						
37						
38						
39	SUPPORTING SCHEDULES:				RECAP SCHEDULES:	
40	Rejoinder C-1, Page 2				Rejoinder A-1	
41	Rejoinder C-2					

Goodman Water Company
Test Year Ended September 31, 2005
Income Statement

Exhibit
Rejoinder Schedule C-1
Page 2
Witness: Bourassa

Line No.		ADJUSTMENT LABEL->> Adjusted Book Results	1 Rebuttal Outside Services	2 Rebuttal Rate Case Expense	3 Rebuttal Property Taxes	4 Rebuttal Miscellaneous Expese	5 Rebuttal Income Tax	6	Rejoinder Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	**Revenues**										
2	Metered Water Revenues	$ 195,408							$ 195,408	$ 325,463	$ 520,872
3	Unmetered Water Revenues	-							-		-
4	Other Water Revenues	17,940							17,940		17,940
5		$ 213,348	$ -	$ -	$ -	$ -	$ -	$ -	$ 213,348	$ 325,463	$ 538,812
6	**Operating Expenses**										
7	Salaries and Wages	$ 32,000							$ 32,000		$ 32,000
8	Purchased Water	-							-		-
9	Purchased Power	10,086							10,086		10,086
10	Chemicals	-							-		-
11	Repairs and Maintenance	9,868							9,868		9,868
12	Office Supplies and Expense	778							778		778
13	Outside Services	78,106	(174)						77,932		77,932
14	Water Testing	3,639							3,639		3,639
15	Rents	-							-		-
16	Transportation Expenses	-							-		-
17	Insurance - General Liability	18,253							18,253		18,253
18	Insurance - Health and Life	-							-		-
19	Regulatory Commission Expense - Rate Case	25,000		(1,875)					23,125		23,125
20	Miscellaneous Expense	2,386				(140)			2,246		2,246
21	Depreciation Expense	129,418							129,418		129,418
22	Taxes Other Than Income	2,635							2,635		2,635
23	Property Taxes	19,270			17				19,287		19,287
24	Income Tax	(41,497)					627		(40,870)	114,748	73,879
25		-							-		-
26	**Total Operating Expenses**	$ 289,943	$ (174)	$ (1,875)	$ 17	$ (140)	$ 627	$ -	$ 288,398	$ 114,748	$ 403,147
27	**Operating Income**	$ (76,594)	$ 174	$ 1,875	$ (17)	$ 140	$ (627)	$ -	$ (75,050)	$ 210,715	$ 135,665
28	**Other Income (Expense)**										
29	Interest Income	-							-		-
30	Other income	-							-		-
31	Interest Expense	-							-		-
32	Other Expense	-							-		-
33		-							-		-
34	**Total Other Income (Expense)**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
35	**Net Profit (Loss)**	$ (76,594)	$ 174	$ 1,875	$ (17)	$ 140	$ (627)	$ -	$ (75,050)	$ 210,715	$ 135,665
36											
37											
38											
39	SUPPORTING SCHEDULES:										
40	Rebuttal C-2										
41											

RECAP SCHEDULES:
Rejoinder A-1

Goodman Water Company
Test Year Ended September 31, 2005
Adjustments to Revenues and Expenses

Exhibit
Rejoinder Schedule C-2
Page 1
Witness: Bourassa

Line No.		Adjustments to Revenues and Expenses						
		1	2	3	4	5	6	
1		Outside	Rate Case	Property	Miscellaneous	Income	Intentionally	
2		Services	Expense	Taxes	Expense	Tax	Left Blank	Subtotal
3	Revenues							-
4								
5	Expenses	(174)	(1,875)	17	(140)	627	-	(1,545)
6								
7	Operating							
8	Income	174	1,875	(17)	140	(627)	-	1,545
9								
10	Interest							-
11	Expense							-
12	Other							
13	Income /							-
14	Expense							
15								
16	Net Income	174	1,875	(17)	140	(627)	-	1,545
17								
18								
19		Adjustments to Revenues and Expenses						
20		7	8	9	10	11	12	
21		Intentionally	Intentionally	Intentionally	Intentionally	Intentionally	Intentionally	
22		Left Blank	Left Blank	Left Blank	Left Blank	Left Blank	Left Blank	Subtotal
23	Revenues							-
24								
25	Expenses							(1,545)
26								
27	Operating							
28	Income	-	-	-	-	-	-	1,545
29								
30	Interest							
31	Expense							-
32	Other							
33	Income /							-
34	Expense							
35								
36	Net Income	-	-	-	-	-	-	1,545
37								
38								
39		Adjustments to Revenues and Expenses						
40		13	14	15	16	17	18	
41		Intentionally	Intentionally	Intentionally	Intentionally	Intentionally	Intentionally	
42		Left Blank	Left Blank	Left Blank	Left Blank	Left Blank	Left Blank	Total
43	Revenues							-
44								
45	Expenses							(1,545)
46								
47	Operating							
48	Income	-	-	-	-	-	-	1,545
49								
50	Interest							
51	Expense							-
52	Other							
53	Income /							-
54	Expense							
55								
56	Net Income	-	-	-	-	-	-	1,545

Goodman Water Company
Test Year Ended September 31, 2005
Computation of Gross Revenue Conversion Factor

Exhibit
Rejoinder Schedule C-3
Page 1
Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
1	Federal Income Taxes	28.29%
2		
3	State Income Taxes	6.97%
4		
5	Other Taxes and Expenses	0.00%
6		
7		
8	Total Tax Percentage	35.26%
9		
10	Operating Income % = 100% - Tax Percentage	64.74%
11		
12		
13		
14		
15	1 = Gross Revenue Conversion Factor	
16	Operating Income %	1.5446
17		
18	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
19		Rejoinder A-1
20		

Goodman Water Company
Test Year Ended September 31, 2005
Summary of Cost of Capital

Exhibit
Rejoinder Schedule D-1
Page 1
Witness: Bourassa

Line No.	Item of Capital	End of Test Year Dollar Amount	End of Test Year Percent of Total	End of Test Year (e) Cost Rate	End of Test Year Weighted Cost	Adjusted End of Test Year Dollar Amount	Adjusted End of Test Year Percent of Total	Adjusted End of Test Year (e) Cost Rate	Adjusted End of Test Year Weighted Cost
1	Long-Term Debt	-	0.00%	0.00%	0.00%	-	0.00%	0.00%	0.00%
2									
3	Stockholder's Equity (1)(2)	1,389,439	100.00%	10.50%	10.50%	1,389,439	100.00%	10.50%	10.50%
4									
5	Totals	1,389,439	100.00%		10.50%	1,389,439	100.00%		10.50%
6									
7									
8									
9	**(1) Increase Equity for expense reclassified to plant Rebuttal adjustment 1, B-2, page 1**			**$ 17,325**					
10	**(2) Increase Equity for expense reclassified to plant Rebuttal adjustment 2, B-2, page 2**			**$ (263)**					
11	SUPPORTING SCHEDULES:							RECAP SCHEDULES:	
12									
13									
14									
15									
16									
17									
18									
19									
20									
21									
22									
23									
24									
25									
26									
27									
28									
29									
30									
31									

Goodman Water Company
Summary of Results

Exhibit
Schedule D-4.0
Witness: Bourassa

Line No.		Low	High	Midpoint
1	DCF Constant Growth	9.9%	12.8%	11.4%
2	DCF Sustainable Growth	8.7%	10.8%	9.8%
3	DCF Two-Stage	9.6%	11.7%	10.7%
4				
5	Risk Premium - Actual Returns	10.1%	10.2%	10.2%
6	Risk Premium - Authorized Returns	10.8%	11.3%	11.1%
7				
8	Actual Returns	4.0%	11.7%	7.9%
9	Authorized Returns	9.9%	12.7%	11.3%
10				
11	Water Utility Industry			
12	2006			9.5%
13	2007			10.5%
14	09-11			11.5%
15				
16				
17				
18				
19				
20				

Goodman Water Company
Selected Characteristics of Water Utilities

Exhibit
Schedule D-4.1
Witness: Bourassa

Line No.		% Water Revenues	Operating Revenues (millions)	Net Plant (millions)	S&P Bond Rating	Moody's Bond Rating
1						
2						
3						
4	1. American States	85%	$ 248.7	$ 644.8	A-	A2
5	2. Aqua America	88%	$ 519.6	$ 2,115.5	AA-	NR
6	3. California Water	95%	$ 325.3	$ 797.4	NR	A2
7	4. Connecticut Water	88%	$ 51.1	$ 206.4	AAA	NR
8	5. Middlesex	89%	$ 80.5	$ 274.4	A	NR
9	6. SJW Corp.	97%	$ 188.3	$ 406.7	NR	NR
10						
11	Average	90%	$ 235.6	$ 740.9		
12						
13	Goodman Water Company	100%	$ 0.2	$ 2.3		
14						
15	Source: AUS Utility Reports (December 2006)					

Goodman Water Company
Capital Structures of Water Utilities December 2005

Exhibit
Schedule D-4.2
Witness: Bourassa

No.		Book Value		Market Value	
		Long-Term Debt	Common Equity	Long-Term Debt	Common Equity
1.	American States	50.4%	49.6%	29.6%	70.4%
2.	Aqua America	52.0%	48.0%	22.9%	77.1%
3.	California Water	48.3%	51.7%	27.2%	72.8%
4.	Connecticut Water	40.6%	59.4%	25.7%	74.3%
5.	Middlesex	56.3%	43.7%	37.1%	62.9%
6.	SJW Corp.	42.6%	57.4%	18.7%	81.3%
	Average	48.3%	51.7%	26.9%	73.1%
	Goodman Water Company	100.0%	0.0%	N/A	N/A

Sources:
Zacks Investment Research

Goodman Water Company
Comparisons of Past and Future Estimates of Growth

Exhibit
Schedule D-4.3
Page 1
Witness: Bourassa

Line No.		Company	Five-year historical compound annual changes Price	Book Value	DPS	EPS	Average Future Growth*
7	1.	American States	8.19%	4.29%	0.91%	1.29%	7.50%
8	2.	Aqua America	21.12%	10.35%	7.39%	8.60%	10.67%
9	3.	California Water	12.54%	4.38%	0.72%	2.33%	7.50%
10	4.	Connecticut Water	7.61%	5.25%	1.48%	Negative	
11	5.	Middlesex	5.32%	4.26%	1.89%	6.84%	
12	6.	SJW Corp.	9.11%	6.30%	5.27%	14.07%	
15		GROUP AVERAGE	10.65%	5.80%	2.95%	6.62%	8.56%
16		GROUP MEDIAN	8.65%	4.81%	1.69%	6.84%	7.50%

* See Schedule D-4.5

Sources:
Value Line Data
Yahoo Finance

Goodman Water Company

Comparisons of Past and Future Estimates of Growth

Exhibit
Schedule D-4.4
Page 1
Witness: Bourassa

Line No.		Company	Ten-year historical compound annual changes Price	Book Value	DPS	EPS	Average Future Growth*
7	1.	American States	13.25%	4.33%	1.06%	3.42%	7.50%
8	2.	Aqua America	27.11%	9.86%	6.16%	9.37%	10.67%
9	3.	California Water	13.65%	3.15%	0.92%	2.31%	7.50%
10	4.	Connecticut Water	11.68%	4.03%	1.26%	Negative	
11	5.	Middlesex	11.55%	3.93%	2.18%	0.43%	
12	6.	SJW Corp.	17.76%	5.44%	3.94%	2.38%	
15		GROUP AVERAGE	15.83%	5.12%	2.59%	3.58%	8.56%
16		GROUP MEDIAN	13.45%	4.18%	1.72%	2.38%	7.50%

* See Schedule D-4.5

Sources:

Value Line Data

Yahoo Finance

Goodman Water Company
Analysts Forecasts of Earnings Per Share Growth

Exhibit
Schedule D-4.5
Witness: Bourassa

Line No.		(1)	(2)	(3)	(4)
		EPS GROWTH			Average
				Value	Growth (G)
	Company	Zacks	S&P	Line	(Cols 1-3)
1.	American States	6.00%	6.00%	10.50%	7.50%
2.	Aqua America	8.00%	12.00%	12.00%	10.67%
3.	California Water	10.00%	8.00%	4.50%	7.50%
4.	Connecticut Water				8.56%
5.	Middlesex				8.56%
6.	SJW Corp.				8.56%
	GROUP AVERAGE	8.00%	8.67%	9.00%	8.56%
	GROUP MEDIAN				8.56%

Sources:
Value Line Investment Analyzer Data December 22, 2006
Zacks Investment Research Site December 22, 2006
S&P Earnings Guide December 2006

Goodman Water Company
Estimates of Sustainable Growth

Exhibit
Schedule D-4.6
Witness: Bourassa

Line No.		Company	(1) Retention Ratio	(2) Rate of Return	(3) br Growth	(4) sv Growth	(5) Average Sustainable Growth (Cols 3+4)
7	1.	American States	0.49	10.00%	4.95%	3.35%	8.30%
8	2.	Aqua America	0.42	14.50%	6.15%	0.74%	6.89%
9	3.	California Water	0.32	9.00%	2.90%	3.18%	6.08%
10	4.	Connecticut Water					
11	5.	Middlesex					
12	6.	SJW Corp.					
13							
14							
15		GROUP AVERAGE	0.41	11.17%	4.67%	2.42%	7.09%
16		GROUP MEDIAN	0.42	10.00%	4.95%	3.18%	6.89%

Sources:
Value Line Investment Analyzer Data December 22, 2006

Goodman Water Company
Estimates of sv Growth

Exhibit
Schedule D-4.7
Witness: Bourassa

Line No.		Company	(1) Stock Financing Rate	(2) Current Market to Book Ratio	(3) v	(4) sv Growth
7	1.	American States	5.71%	2.42	0.59	3.35%
8	2.	Aqua America	1.03%	3.65	0.73	0.74%
9	3.	California Water	5.26%	2.52	0.60	3.18%
10	4.	Connecticut Water				na
11	5.	Middlesex				na
12	6.	SJW Corp.				na
15		GROUP AVERAGE	4.00%	2.86	0.64	2.42%
16		GROUP MEDIAN	5.26%	2.52	0.60	3.18%

Sources:
Value Line Investment Analyzer Data December 22, 2006
Zacks Investment Research Site December 22, 2006
S&P Earnings Guide December 2006

Goodman Water Company
Discounted Cash Flow Analysis (Water)
Constant Growth DCF Model - Sustainable Growth

Exhibit
Schedule D-4.9
Witness: Bourassa

Line No.		Company	(1) Spot Price (Po)	(2) Next Year's Div (D1)	(3) Dividend Yield	(4) Sustainable Growth(a) br	(5) vs	(6) br+sv Growth (g)	(7) Indicated Cost of Equity k=Div Yld + g (Cols 3+6)
1									
2									
3									
4									
5									
6									
7	1.	American States	38.01	0.92	2.42%	4.95%	3.35%	8.30%	10.7%
8	2.	Aqua America	22.98	0.50	2.18%	6.15%	0.74%	6.89%	9.1%
9	3.	California Water	39.90	1.16	2.91%	2.90%	3.18%	6.08%	9.0%
10	4.	Connecticut Water	22.89	0.86	3.76%			7.09%	10.8%
11	5.	Middlesex	18.74	0.68	3.65%			7.09%	10.7%
12	6.	SJW Corp.	34.63	0.55	1.59%			7.09%	8.7%
13									
14									
15		GROUP AVERAGE			2.75%			7.09%	9.8%
16		GROUP MEDIAN							9.9%
17									
18									
19									
20		a) See Schedule D-4.6 and D-4.7							
21									
22									
23									
24									

Goodman Water Company
Discounted Cash Flow Analysis (Water)
Constant Growth DCF Model
Using Projected EPS Growth

Exhibit
Schedule D-4.8
Witness: Bourassa

Line No.		Company	(1) Spot Price (Po)	(2) Next Year's Div (D1)	(3) Dividend Yield	(4) (a) EPS Growth (g)	(5) Indicated Cost of Equity k=Div Yld + g (Cols 3+4)
7	1.	American States	38.01	0.92	2.42%	7.50%	9.9%
8	2.	Aqua America	22.98	0.50	2.18%	10.67%	12.8%
9	3.	California Water	39.90	1.16	2.91%	7.50%	10.4%
10	4.	Connecticut Water	22.89	0.86	3.76%	8.56%	12.3%
11	5.	Middlesex	18.74	0.68	3.65%	8.56%	12.2%
12	6.	SJW Corp.	34.63	0.55	1.59%	8.56%	10.1%
13							
14							
15		GROUP AVERAGE			2.75%	8.56%	11.3%
16		GROUP MEDIAN					11.3%
17							
18	a) See Schedules D-4.5						
19							
20	Sources:						
21		Value Line Investment Analyzer Data December 22, 2006					
22							
23							

Goodman Water Company
Discounted Cash Flow Analysis (Water)
Two-Stage Growth - Projected

Exhibit
Schedule D-4.10
Witness: Bourassa

Line No.			(1)	(2)	(3)	(4)	(5)	(6)	(7)
						Projected Growth Rates			
		Company	Spot Price(P_0)	Next Year's Div (D_1)	Yield (D_1/P_0)	Near Term (a)	Long Term (GDP)	Average (b)	Indicated Cost of Equity
7	1.	American States	38.01	0.92	2.42%	7.50%	6.80%	7.27%	9.7%
8	2.	Aqua America	22.98	0.50	2.18%	10.67%	6.80%	9.39%	11.6%
9	3.	California Water	39.90	1.16	2.91%	7.50%	6.80%	7.27%	10.2%
10	4.	Connecticut Water	22.89	0.86	3.76%	8.56%	6.80%	7.98%	11.7%
11	5.	Middlesex	18.74	0.68	3.65%	8.56%	6.80%	7.98%	11.6%
12	6.	SJW Corp.	34.63	0.55	1.59%	8.56%	6.80%	7.98%	9.6%
13									
14									
15		GROUP AVERAGE						7.98%	10.7%
16		GROUP MEDIAN							10.9%
17									
18		(a) See Schedule D-4.5							
19		(b) Near term growth given weighting of .67							
20									
21									
22									
23									
24									

Goodman Water Company
Risk Premium Equity Cost Analysis
Average Equity Returns of Sample Water Companies

Exhibit
Schedule D-4.11
Witness: Bourassa

Line No.		Actual Returns on Equity	Annual Average 10 Year Treasury	Risk Premium 10 Year Treasury
1	2005	9.22%	4.29%	4.93%
2	2004	9.00%	4.27%	4.73%
3	2003	8.75%	4.01%	4.74%
4	2002	10.25%	4.61%	5.64%
5	2001	10.05%	5.02%	5.03%
6	2000	9.62%	6.03%	3.59%
7	1999	11.20%	5.65%	5.55%
8	1998	10.62%	5.26%	5.36%
9	1997	11.52%	6.35%	5.17%
10	1996	11.67%	6.44%	5.23%
11	1995	10.93%	6.57%	4.36%
12				
13				
14	10 Year Average Premium			5.00%
15	5 Year Average Premium			5.01%
16				
17				
18	Consensus Forecast Interest Rates for 2008-2009			5.15%
19				
20	Projected Returns on Equity			
21	10 Year Average			10.1%
22	5 Year Average			10.2%
23				
24				
25	Sources:			
26	Value Line Data December 22, 2006			
27	Ibbotson Associates SBBI Valuation Edition 2006 Yearbook			
28	Blue Chip Forecast Interest Rates - 10 year Treas. December 2006			
29	Federal Reserve			
30				

Goodman Water Company
Risk Premium Equity Cost Analysis
Authorized Equity Returns of Sample Water Companies

Exhibit
Schedule D-4.12
Witness: Bourassa

Line No.		Authorized Returns on Equity	Average Annual 10 Year Treasury	Risk Premium 10 Year Treasury
1	2005	10.47%	4.34%	6.13%
2	2004	10.40%	4.27%	6.13%
3	2003	10.48%	4.01%	6.47%
4	2002	10.62%	4.61%	6.01%
5	2001	10.86%	5.02%	5.84%
6	2000	11.12%	6.03%	5.09%
7	1999	11.12%	5.65%	5.47%
8	1998	11.06%	5.26%	5.80%
9	1997	11.18%	6.35%	4.83%
10	1996	11.58%	6.44%	5.14%
11	1995	11.51%	6.57%	4.94%
12				
13				
14	10 Year Average Premium			5.69%
15	5 Year Average Premium			6.12%
16				
17				
18	Consensus Forecast Interest Rates for 2008-2009			5.15%
19				
20	Projected Returns on Equity			
21	10 Year Average			10.8%
22	5 Year Average			11.3%
23				
24				
25	Sources:			
26	AUS Utility Reports, issues for December various years			
27	Ibbotson Associates SBBI Valuation Edition 2006 Yearbook			
28	Blue Chip Forecast Interest Rates - 10 year Treas. December 2006			
29	Federal Reserve			

Test Year Ended June 30, 2006
Returns on Equity of Nationally Traded Water
Utilities as Reported in AUS Utility Reports
December 2006

Exhibit
Schedule D-4.13
Witness: Bourassa

Line No.		Authorized Rate of Return	Current Rate of Return
1	American States Water Co.	9.9%	11.1%
2	Aqua America	10.1%	10.5%
3	California Water	10.1%	8.8%
4	Connecticut Water Service	12.7%	4.0%
5	Middlesex Water Co.	10.0%	10.0%
6	SJW Corp.	9.9%	11.7%
7			
8			
9	Averages	10.4%	9.4%
10			
11			
12			
13			
14			
15			

Goodman Water Company
Revenue Summary
Test Year Ended September 30, 2005

Exhibit
Rejoinder Schedule H-1
Page 1
Witness: Bourassa

Line No.	Customer Classification and/or Meter Size	Total Revenues at Present Rates	Total Revenues at Proposed Rates	Dollar Change	Percent Change	Addition Bills	Addition Gallons
1	5/8 x 3/4 Inch Residential	$124,765	$344,047	$ 219,282	175.76%		
2	3/4 Inch Residential	-	-	-	0.00%		
3	1 Inch Residential	10,839	27,423	16,584	153.00%		
4	2 Inch Residential	13,982	43,113	29,131	208.35%		
5	Construction Water	13,412	21,797	8,386	62.53%		
6		-	-	-			
7		-	-	-			
8							
9							
10	Subtotals of Revenues	$ 162,998	$ 436,381	$ 273,383	167.72%		
11							
12	Other Water Revenues	17,940	17,940	-	0.00%		
13							
14							
15	**Subtotals of Revenues**	$ 180,938	$ 454,321	$ 273,383	151.09%	Addition	Addition
16	**Revenue Annualizations:**					Bills	Gallons
17	5/8 Inch residential	$ 14,345	$ 38,370	$ 24,024	167.47%	537	182,394
18	3/4 Inch Residential	-	-	-	0.00%	-	-
19	1 Inch Residential	18,401	46,055	27,654	150.29%	325	1,722,972
20	2 Inch Residential	-	-	-	0.00%	-	-
21	Construction Water	-	-	-	0.00%		
22	**Subtotal Revenue Annualization**	32,746	84,425	51,678	157.81%	862	1,905,366
23							
24	**Total Revenues Per Bill Count**	$ 213,684	$ 538,745	$ 325,061	152.12%		
25	**With Annualization**						
26							
27	**Subtotal of Revenues Above w/o Annualization**	**$ 180,938**					
28	**Revenues Per Annual Report**	**$ 180,602**					
29	**Difference in Dollars**	**$ 336**					
30	**Dfference in Percentage**	**0.19%**					
31	**Tolerance Allowed by ACC Staff**	**0.50%**					
32							
33							

Goodman Water Company
Analysis of Revenue by Detailed Class
Test Year Ended September 30, 2005

Exhibit
Rejoinder Schedule H-2
Page 1
Witness: Bourassa

Line No.	Customer Classification and/or Meter Size	(a) Average Number of Customers at 12/31/2004	Average Consumption	Revenues Present Rates	Revenues Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount	Percent of Customers
1	5/8 x 3/4 Inch Residential	368	5,509	$ 124,765	$ 344,047	$ 219,282	175.76%	94.83%
2	3/4 Inch Residential	-	-	-	-	-	0.00%	0.00%
3	1 Inch Residential	17	3,816	10,839	27,423	16,584	153.00%	4.36%
4	2 Inch Residential	3	111,083	13,982	43,113	29,131	208.35%	0.77%
5	Construction Water	0	1,411,750	13,412	21,797	8,386	62.53%	0.04%
6								
7								
8								
9								
10								
11								
12								
13								
14	Totals	388						100.00%
15								
16	Actual Year End Number							
17	of Customers:	459						
18								
19								
20								
21								

Goodman Water Company
Present and Proposed Rates
Test Year Ended September 30, 2005

Docket No.
W-02500A-06-0281

Exhibit
Rejoinder Schedule H-3
Page 1
Witness: Bourassa

Line No.	Customer Classification and Meter Size (Residential, Commercial, Irrigation)		Present Rates	Proposed Rates (a)	Percent Change
1	**Monthly Usage Charge for:**				
2	5/8 x 3/4 Inch		$ 18.00	$ 44.87	149.30%
3	3/4 Inch		27.00	67.31	149.30%
4	1 Inch		45.00	112.19	149.30%
5	1 1/2 Inch		90.00	224.37	149.30%
6	2 Inch		144.00	358.99	149.30%
7	3 Inch		270.00	673.11	149.30%
8	4 Inch		450.00	1,121.85	149.30%
9	5 Inch		N/A	N/A	
10	6 Inch		900.00	2,243.70	149.30%
11	Fire Hydrant		15.00	-	
12	Bulk Water		-	-	0.00%
13					
14	Gallons included in Minimums 5/8 x 3/4 Inch				
15	Meter Only		1,000	-	
16					
17	**Tier 1:** (Gallon upper limit, up to, but not exceeding)				
18	5/8 x 3/4 Inch	Residential, Commercial, Irrigation	All gallons over min.	Please See	
19	34 Inch	Residential, Commercial, Irrigation	All gallons over min.	Page 2	
20	1 Inch	Residential, Commercial, Irrigation	All gallons over min.		
21	1.5 Inch	Residential, Commercial, Irrigation	All gallons over min.		
22	2 Inch	Residential, Commercial, Irrigation	All gallons over min.		
23	3 Inch	Residential, Commercial, Irrigation	All gallons over min.		
24	4 Inch	Residential, Commercial, Irrigation	All gallons over min.		
25	6 Inch	Residential, Commercial, Irrigation	All gallons over min.		
26	8 Inch	Residential, Commercial, Irrigation	All gallons over min.		
27					
28	**Tier 2:** (Gallon upper limit, up to, but not exceeding)				
29	5/8 x 3/4 Inch	Residential, Commercial, Irrigation		Please See	
30	3/4 Inch	Residential, Commercial, Irrigation		Page 2	
31	1 Inch	Residential, Commercial, Irrigation			
32	1.5 Inch	Residential, Commercial, Irrigation			
33	2 Inch	Residential, Commercial, Irrigation			
34	3 Inch	Residential, Commercial, Irrigation			
35	4 Inch	Residential, Commercial, Irrigation			
36	6 Inch	Residential, Commercial, Irrigation			
37	8 Inch	Residential, Commercial, Irrigation			
38					

Goodman Water Company
Present and Proposed Rates
Test Year Ended September 30, 2005

Docket No.
W-02500A-06-0281

Exhibit
Rejoinder Schedule H-3
Page 2
Witness: Bourassa

Line No.	Customer Classification and Meter Size		Present Rates	Proposed Rates
1	**Tier 3:** (Gallon upper limit, up to, but not exceeding)			
2	5/8 x 3/4 Inch	Residential, Commercial, Irrigation		Please See
3	3/4 Inch	Residential, Commercial, Irrigation		Page 2
4	1 Inch	Residential, Commercial, Irrigation		
5	1.5 Inch	Residential, Commercial, Irrigation		
6	2 Inch	Residential, Commercial, Irrigation		
7	3 Inch	Residential, Commercial, Irrigation		
8	4 Inch	Residential, Commercial, Irrigation		
9	6 Inch	Residential, Commercial, Irrigation		
10	8 Inch	Residential, Commercial, Irrigation		
11				
12			Present	Proposed
13	Commodity Rates (per 1,000 gallons in excess of gallons in Each Tier)			
14	All customer classes except Bulk Water	Tier 1	$ 2.20	$ 5.02
15	All customer classes except Bulk Water	Tier 2	2.20	6.72
16	All customer classes except Bulk Water	Tier 3	2.20	7.72
17				
18	Bulk Water	All Water	$ 4.75	$ 7.72
19				
20			Proposed Rates	
21			From	To
22			Gallons	Gallons
23	**5/8 and 3/4 Inch Meters**			Price
24	Tier 1	over	-	up to 4,000 $ 5.02
25	Tier 2	over	4,001	up to 10,000 $ 6.72
26	Tier 3	over	10,001	$ 7.72
27				
28				
29	**1 Inch Meter and Larger Meters**			
30	Tier 1	over	-	up to 10,000 $ 5.02
31	Tier 2	over	10,001	up to 25,000 $ 6.72
32	Tier 3	over	25,001	$ 7.72
33				
34				

Line No.	Customer Classification and Meter Size		Percent Change
12			
13	Commodity Rates (per 1,000 gallons in excess of gallons in Each Tier)		
14	All customer classes except Bulk Water	Tier 1	128.18%
15	All customer classes except Bulk Water	Tier 2	205.45%
16	All customer classes except Bulk Water	Tier 3	250.91%
17			
18	Bulk Water	All Water	62.53%

Exhibit
Rejoinder Schedule H-3
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Witness: Bourassa

Goodman Water Company
Present and Proposed Rates
Test Year Ended September 30, 2005

Meter and Service Line Charges

Line No.		Present Service Line Charge	Present Meter Installation Charge	Total Present Charge	Proposed Service Line Charge	Proposed Meter Installation Charge	Total Proposed Charge
7	5/8 x 3/4 Inch			$ 225.00	$ 385.00	$ 135.00	$ 520.00
8	3/4 Inch			270.00	385.00	215.00	600.00
9	1 Inch			300.00	435.00	255.00	690.00
10	1 1/2 Inch			425.00	470.00	465.00	935.00
11	2 Inch Turbo			550.00	630.00	965.00	1,595.00
12	2 Inch, Compound			550.00	630.00	1,690.00	2,320.00
13	3 Inch Turbo			750.00	805.00	1,470.00	2,275.00
14	3 Inch, compound			750.00	845.00	2,265.00	3,110.00
15	4 Inch Turbo			1,375.00	1,170.00	2,350.00	3,520.00
16	4 Inch, compound			1,375.00	1,230.00	3,245.00	4,475.00
17	5 Inch			2,090.00			
18	6 Inch Turbo			2,800.00	1,730.00	4,545.00	6,275.00
19	6 Inch, compound			2,800.00	1,770.00	6,280.00	8,050.00
20	8 Inch			NA	At Cost	At Cost	At Cost
21	10 Inch			NA	At Cost	At Cost	At Cost
22	12 Inch			NA	At Cost	At Cost	At Cost

Other Charges:

Establishment	$ 50.00	$ 50.00	Establishment (R14-2-403.D.1)
Establishment (After Hours)	$ 75.00	$ 75.00	Establishment (After Hours) (R14-2-403.D.2)
Reconnection (Delinquent)	$ 75.00	$ 75.00	Meter Test (R14-2-408.F)
Reconnection (Delinquent) after hours			Deposit (R14-2-403.B)
Meter Test	$ 20.00	$ 20.00	Deposit Interest (R14-2-403.B.3)
Deposit	PER RULE	PER RULE	Re-establishment (R14-2-403.D.1)
Deposit Interest	PER RULE	PER RULE	NSF Check (R14-2-409.F.1)
Re-establishment (Within 12 months)	PER RULE	PER RULE	Deferred Payment (R14-2-409.G.6)
NSF Check	$ 15.00	$ 15.00	Meter Re-read (R14-2-408.C.2)
Deferred Payment	18%	18%	
Meter Re-read	$ 20.00	$ 20.00	
Late Fee (a)	$ 10.00	1.50%	
Customer requested Meter Test	$ 20.00	$ 20.00	

(a) $ 5.00 minimum or 1.5% of unpaid balance whichever is greater.

Goodman Water Company
Bill Comparison of Present and Proposed Rates
Customer Classification 5/8 Inch Meter
Test Year Ended September 30, 2005
(Excludes all Revenue Related Taxes)

Exhibit
Rejoinder Schedule H-4
Page 1
Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 18.00	$ 44.87	$ 26.87	149.30%
1,000	18.00	49.89	$ 31.89	177.19%
2,000	20.20	54.91	$ 34.71	171.85%
3,000	22.40	59.93	$ 37.53	167.56%
4,000	24.60	64.95	$ 40.35	164.04%
5,000	26.80	71.67	$ 44.87	167.44%
6,000	29.00	78.39	$ 49.39	170.32%
7,000	31.20	85.11	$ 53.91	172.80%
8,000	33.40	91.83	$ 58.43	174.95%
9,000	35.60	98.55	$ 62.95	176.84%
10,000	37.80	105.27	$ 67.47	178.50%
12,000	42.20	120.71	$ 78.51	186.05%
14,000	46.60	136.15	$ 89.55	192.18%
16,000	51.00	151.59	$ 100.59	197.24%
18,000	55.40	167.03	$ 111.63	201.51%
20,000	59.80	182.47	$ 122.67	205.14%
25,000	70.80	221.07	$ 150.27	212.25%
30,000	81.80	259.67	$ 177.87	217.45%
35,000	92.80	298.27	$ 205.47	221.42%
40,000	103.80	336.87	$ 233.07	224.54%
45,000	114.80	375.47	$ 260.67	227.07%
50,000	125.80	414.07	$ 288.27	229.15%
60,000	147.80	491.27	$ 343.47	232.39%
70,000	169.80	568.47	$ 398.67	234.79%
80,000	191.80	645.67	$ 453.87	236.64%
90,000	213.80	722.87	$ 509.07	238.11%
100,000	235.80	800.07	$ 564.27	239.30%
Average Usage				
5,509	$ 27.92	$ 75.09	$ 47.17	168.96%
Median Usage				
4,500	$ 25.70	$ 68.31	$ 42.61	165.81%

Present Rates:

Monthly Minimum:		$ 18.00
Gallons in Minimum		1,000
Charge Per 1,000 Gallons		
		$ 2.20

Proposed Rates:

Monthly Minimum:		$ 44.87
Gallons in Minimum		-
Charge Per 1,000 Gallons		
Up to	4,000	$ 5.02
Up to	10,000	$ 6.72
Over	10,001	$ 7.72

Goodman Water Company
Bill Comparison of Present and Proposed Rates
Customer Classification 1 Inch Meter
Test Year Ended September 30, 2005
(Excludes all Revenue Related Taxes)

Exhibit
Rebuttal Schedule H-4
Page 2
Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 45.00	$ 112.19	$ 67.19	149.30%
1,000	47.20	117.21	$ 70.01	148.32%
2,000	49.40	122.23	$ 72.83	147.42%
3,000	51.60	127.25	$ 75.65	146.60%
4,000	53.80	132.27	$ 78.47	145.85%
5,000	56.00	137.29	$ 81.29	145.15%
6,000	58.20	142.31	$ 84.11	144.51%
7,000	60.40	147.33	$ 86.93	143.92%
8,000	62.60	152.35	$ 89.75	143.36%
9,000	64.80	157.37	$ 92.57	142.85%
10,000	67.00	162.39	$ 95.39	142.37%
12,000	71.40	175.83	$ 104.43	146.25%
14,000	75.80	189.27	$ 113.47	149.69%
16,000	80.20	202.71	$ 122.51	152.75%
18,000	84.60	216.15	$ 131.55	155.49%
20,000	89.00	229.59	$ 140.59	157.96%
25,000	100.00	263.19	$ 163.19	163.19%
30,000	111.00	301.79	$ 190.79	171.88%
35,000	122.00	340.39	$ 218.39	179.00%
40,000	133.00	378.99	$ 245.99	184.95%
45,000	144.00	417.59	$ 273.59	189.99%
50,000	155.00	456.19	$ 301.19	194.31%
60,000	177.00	533.39	$ 356.39	201.35%
70,000	199.00	610.59	$ 411.59	206.83%
80,000	221.00	687.79	$ 466.79	211.21%
90,000	243.00	764.99	$ 521.99	214.81%
100,000	265.00	842.19	$ 577.19	217.81%
Average Usage				
3,816	$ 53.39	$ 131.34	$ 77.95	145.98%
Median Usage				
500	$ 46.10	$ 114.70	$ 68.60	148.80%

Present Rates:

Monthly Minimum:		$ 45.00
Gallons in Minimum		-
Charge Per 1,000 Gallons		
		$ 2.20

Proposed Rates:

Monthly Minimum:		$ 112.19
Gallons in Minimum		-
Charge Per 1,000 Gallons		
Up to	10,000	$ 5.02
Up to	25,000	$ 6.72
Over	25,001	$ 7.72

Goodman Water Company
Bill Comparison of Present and Proposed Rates
Customer Classification Residential 2 Inch
Test Year Ended September 30, 2005
(Excludes all Revenue Related Taxes)

Exhibit
Rejoinder Schedule H-4
Page 3
Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 144.00	$ 358.99	$ 214.99	149.30%
1,000	146.20	364.01	$ 217.81	148.98%
2,000	148.40	369.03	$ 220.63	148.67%
3,000	150.60	374.05	$ 223.45	148.37%
4,000	152.80	379.07	$ 226.27	148.08%
5,000	155.00	384.09	$ 229.09	147.80%
6,000	157.20	389.11	$ 231.91	147.53%
7,000	159.40	394.13	$ 234.73	147.26%
8,000	161.60	399.15	$ 237.55	147.00%
9,000	163.80	404.17	$ 240.37	146.75%
10,000	166.00	409.19	$ 243.19	146.50%
12,000	170.40	422.63	$ 252.23	148.02%
14,000	174.80	436.07	$ 261.27	149.47%
16,000	179.20	449.51	$ 270.31	150.84%
18,000	183.60	462.95	$ 279.35	152.15%
20,000	188.00	476.39	$ 288.39	153.40%
25,000	199.00	509.99	$ 310.99	156.28%
30,000	210.00	548.59	$ 338.59	161.23%
35,000	221.00	587.19	$ 366.19	165.70%
40,000	232.00	625.79	$ 393.79	169.74%
45,000	243.00	664.39	$ 421.39	173.41%
50,000	254.00	702.99	$ 448.99	176.77%
60,000	276.00	780.19	$ 504.19	182.68%
70,000	298.00	857.39	$ 559.39	187.72%
80,000	320.00	934.59	$ 614.59	192.06%
90,000	342.00	1,011.79	$ 669.79	195.85%
100,000	364.00	1,088.99	$ 724.99	199.17%
150,000	474.00	1,474.99	$ 1,000.99	211.18%
200,000	584.00	1,860.99	$ 1,276.99	218.66%
250,000	694.00	2,246.99	$ 1,552.99	223.77%
300,000	804.00	2,632.99	$ 1,828.99	227.49%
350,000	914.00	3,018.99	$ 2,104.99	230.31%
400,000	1,024.00	3,404.99	$ 2,380.99	232.52%
450,000	1,134.00	3,790.99	$ 2,656.99	234.30%
500,000	1,244.00	4,176.99	$ 2,932.99	235.77%
Average Usage				
111,083	$ 388.38	$ 1,174.55	$ 786.17	202.42%
Median Usage				
-	$ 144.00	$ 358.99	$ 214.99	149.30%

Present Rates:

Monthly Minimum:		$ 144.00
Gallons in Minimum		
Charge Per 1,000 Gallons		
		$ 2.20

Proposed Rates:

Monthly Minimum:		$ 358.99
Gallons in Minimum		-
Charge Per 1,000 Gallons		
Up to	10,000	$ 5.02
Up to	25,000	$ 6.72
Over	25,001	$ 7.72

Goodman Water Company
Bill Comparison of Present and Proposed Rates
Customer Classification Construction Water
Test Year Ended September 30, 2005
(Excludes all Revenue Related Taxes)

Exhibit
Rejoinder Schedule H-4
Page 4
Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ -	$ -	$ -	0.00%
1,000	4.75	7.72	2.97	62.53%
2,000	9.50	15.44	5.94	62.53%
3,000	14.25	23.16	8.91	62.53%
4,000	19.00	30.88	11.88	62.53%
5,000	23.75	38.60	14.85	62.53%
6,000	28.50	46.32	17.82	62.53%
7,000	33.25	54.04	20.79	62.53%
8,000	38.00	61.76	23.76	62.53%
9,000	42.75	69.48	26.73	62.53%
10,000	47.50	77.20	29.70	62.53%
12,000	57.00	92.64	35.64	62.53%
14,000	66.50	108.08	41.58	62.53%
16,000	76.00	123.52	47.52	62.53%
18,000	85.50	138.96	53.46	62.53%
20,000	95.00	154.40	59.40	62.53%
25,000	118.75	193.00	74.25	62.53%
30,000	142.50	231.60	89.10	62.53%
35,000	166.25	270.20	103.95	62.53%
40,000	190.00	308.80	118.80	62.53%
45,000	213.75	347.40	133.65	62.53%
50,000	237.50	386.00	148.50	62.53%
60,000	285.00	463.20	178.20	62.53%
70,000	332.50	540.40	207.90	62.53%
80,000	380.00	617.60	237.60	62.53%
90,000	427.50	694.80	267.30	62.53%
100,000	475.00	772.00	297.00	62.53%
Average Usage				
1,411,750	$ 6,705.81	$ 10,898.71	$ 4,192.90	62.53%
Median Usage				
1,411,750	$ 6,705.81	$ 10,898.71	$ 4,192.90	62.53%

Present Rates:
Monthly Minimum: $ -
Gallons in Minimum -
Charge Per 1,000 Gallons
$ 4.75

Proposed Rates:
Monthly Minimum: $ -
Gallons in Minimum -
Charge Per 1,000 Gallons
$ 7.72